**REPUBLIC OF ALBANIA**
**COUNCIL OF MINISTERS**

# ECONOMIC REFORM PROGRAMME
# 2019-2021

Table of contents

# 1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Economic Reform Programme 2019 - 2021 outlines the main macroeconomic and fiscal policies aiming to establish the clear balance between the internal strengths and external threats, with a view to enable sustainable growth, increased employment and reduced public debt. In addition, the ERP summaries the priority reforms measures of the Government of Albania for the short-term future for increasing domestic production, stimulating new investments and ensuring sustainable growth and increased competitiveness.

The economic growth rate of Albania has continued to accelerate during the cumulative nine-month period of 2018 and is expected to continue the gradual growth in 2019-2021. After the increase of 3.84% in 2017, the GDP grew 4.35% over the nine-month period of 2018 and is expected to gradually continue some acceleration reaching 4.5% in 2021, supported by improved macroeconomic fundamentals.

Fiscal consolidation and the reduction of public debt is essential for reducing macroeconomic risks, which hinder economic growth and cause macroeconomic instability. Fiscal policy in the medium term will remain clearly oriented towards fiscal consolidation in accordance with the fiscal rules set out in the Organic Budget Law as well as the recommendations given by the EC and concluded in the Joint Conclusions of Economic and Financial Dialogue between the EU and the Western Balkans in May 2018. The fiscal consolidation aims to continue the downward trajectory debt to GDP ratio, which started back in 2016, targeting a level of below 60% in 2021. This medium-term target on public debt envisages positive annual primary balances (primary surplus) at a yearly average of about 1% of GDP during 2019-2021 and an average overall deficit about 1.5% of GDP.

At the same time, this fiscal framework accommodates budgetary policies, which support economic growth and offset the tightening effects of fiscal consolidation. Public investments of central government in the short and medium term are preserved at an average of 5% of GDP, which is important to fuel aggregate demand in the short run and shift potential growth in the medium and longer term. Therefore, the fiscal current account balance, defined as the difference between public investment and the annual deficit, remains at high levels while it is gradually increasing in the medium term 2019-2021, with an annual average of +3.5% of GDP.

The preparation of ERP 2019-2021 was the result of a long, constructive and fruitful inter-institutional coordination between the various actors, with representatives from various institutions of the Government and the Bank of Albania (BoA). The Ministry of Finance and Economy (MFE) has followed the progress of the reforms measures set out in ERP 2018-2020; in so doing we have striven to ensure the rollover of those structural reforms that are still being implemented, thus ensuring sustainability in the priority reform agenda. In addition, the policy guidance from the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey of May 2018 have been monitored and their status of implementation and adoption can be found in chapter 4 under the heading *Summary of Reform Measures*.

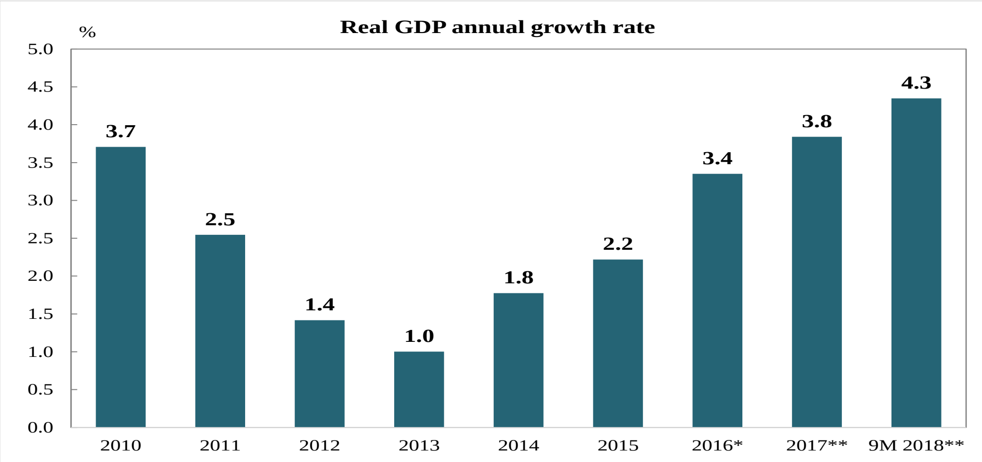
The Economic Reform Programme 2019-2021 was shared, through a public consultation process, with various interest groups, such as civil society, business organisations, partners for development and integration, diplomatic missions stationed in Albania, etc. Their feedback was disseminated to the line institutions contributing in the ERP and is also part of this document under Annex II.

# 2. MACROECONOMIC FRAMEWORK

## 2.1. Recent economic developments

Economic activity in Albania has accelerated in recent years. GDP growth averaged 4.3% in the first three quarters of 2018, up from 3.8% in 2017 and 3.4% in 2016. The economy is supported by favourable financing conditions, inflow of FDIs, high business confidence and improving external environment. Falling unemployment and increasing capacity utilization rates suggest that the economy is approaching its potential.

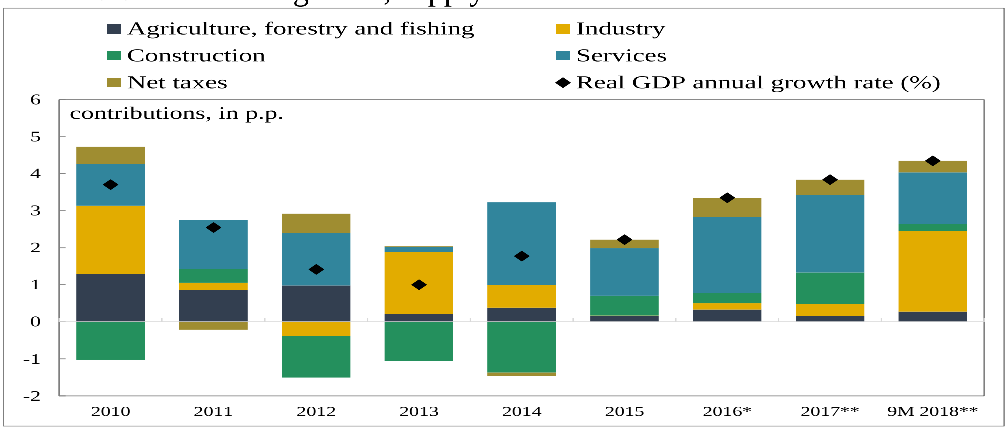
Chart 2.1.1 Real GDP annual growth during 2010 – 9M 2018




*Source: INSTAT. *semi – final data. **preliminary data*

GDP growth is broad based amongst sectors and demand components. From the production side, all sectors contributed to growth in the first three quarters of the year. Growth in the industrial sector was primarily driven by higher electricity production due to better rainfall, accounting for around 2.2 p.p. of the GDP growth rate. The *agriculture* sector continued to have a low contribution to economic growth by around 0.3 p.p., while the contribution of the *construction* sector shrank to 0.2 p.p. as civil engineering works slowed down. Services have contributed to growth by 1.4 p.p. reflecting strong tourism and private consumption.

Chart 2.1.2 Real GDP growth, supply side




*Source: INSTAT and Bank of Albania. *semi – final data. **preliminary data*

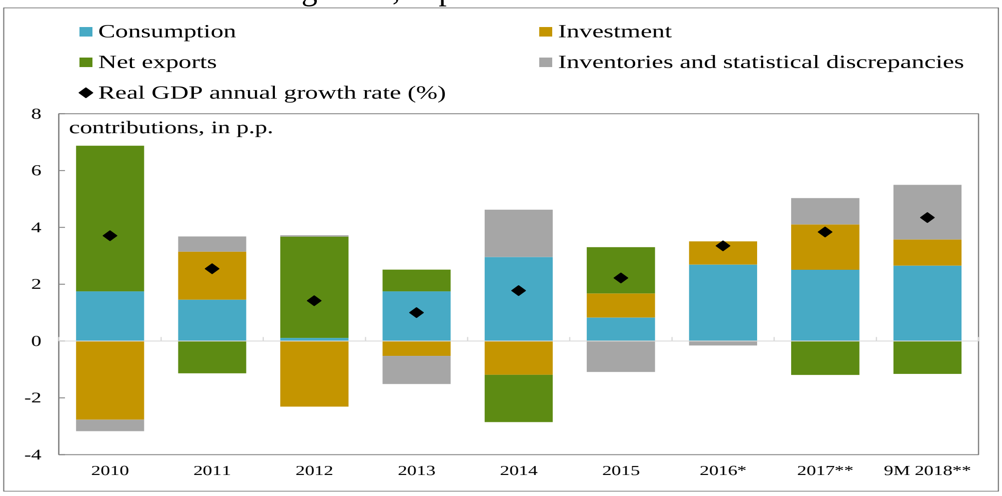
Table 2.1.1: Sectorial contributions to GDP growth rate (p.p.)

| Sectors' Contributions to GDP (p.p.) | 2016* | | | | 2017** | | | | 2018** | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 |
| Agriculture, forestry and fishing | 0.6 | 0.0 | 0.3 | 0.5 | 0.4 | 0.2 | 0.1 | 0.0 | 0.3 | 0.2 | 0.3 |
| Industry | 0.3 | 0.4 | -0.5 | 0.6 | 0.4 | 0.6 | -0.1 | 0.4 | 2.5 | 2.4 | 1.7 |
| Construction | 0.3 | 0.0 | 0.5 | 0.3 | 0.9 | 1.5 | 0.5 | 0.5 | 0.2 | -0.1 | 0.5 |
| Trade, hotels and restaurants, and transport | 0.2 | 0.6 | 0.9 | 0.7 | 0.4 | 0.6 | 1.0 | 0.8 | 0.5 | 0.8 | 1.1 |
| Information and communication | 0.4 | 0.3 | -0.1 | 0.1 | 0.1 | 0.1 | 0.2 | -0.2 | -0.1 | -0.2 | -0.2 |
| Financial and insurance services | 0.0 | 0.1 | 0.5 | 0.3 | 0.4 | 0.3 | 0.1 | 0.3 | 0.0 | 0.1 | 0.1 |
| Real estate services | 0.2 | 0.1 | 0.0 | 0.0 | 0.1 | 0.1 | 0.0 | 0.2 | 0.0 | 0.0 | 0.1 |
| Professional services, administrative services | 0.5 | 0.6 | 0.2 | 0.3 | 0.2 | -0.1 | 0.3 | 0.3 | 0.4 | 0.5 | 0.3 |
| Public administration, education and health | 0.5 | 0.2 | 0.0 | 0.4 | 0.6 | 0.5 | 0.8 | 0.7 | 0.3 | 0.1 | 0.1 |
| Other services | 0.3 | 0.2 | 0.4 | 0.3 | 0.1 | 0.1 | 0.2 | 0.2 | 0.1 | 0.2 | 0.0 |
| Net taxes | 0.5 | 0.6 | 0.2 | 0.8 | 0.5 | 0.3 | 0.4 | 0.5 | 0.3 | 0.2 | 0.4 |
| **Real GDP annual growth rate (in %)** | **3.7** | **3.2** | **2.3** | **4.3** | **3.9** | **4.3** | **3.5** | **3.7** | **4.4** | **4.2** | **4.5** |

*Source: INSTAT and Bank of Albania. *semi – final data. **preliminary data*

From an aggregate demand perspective, economic growth reflects higher domestic demand, with the highest contribution coming from private consumption (2.8 p.p). The latter is supported by ongoing employments gains, favourable financing conditions and higher remittances. Investments have been slowing down, increasing annually by 3.9% in the first three quarters of 2018 from 7.9% the same period a year ago, due to lower construction activity. The fiscal consolidation has not directly facilitated the expansion of aggregate demand, however it has contributed indirectly by reducing the risk premium, keeping low the government borrowing and avoiding upward pressures on interest rates, as well as by strengthening the overall credibility of economic agents on macroeconomic stability. In terms of foreign demand, exports contributed positively to overall growth as expected. A solid expansion was observed particularly in terms of exports of goods. However, the import growth led to a negative net exports' contribution of around -1.2 p.p.

Chart 2.1.3: Real GDP growth, expenditure side

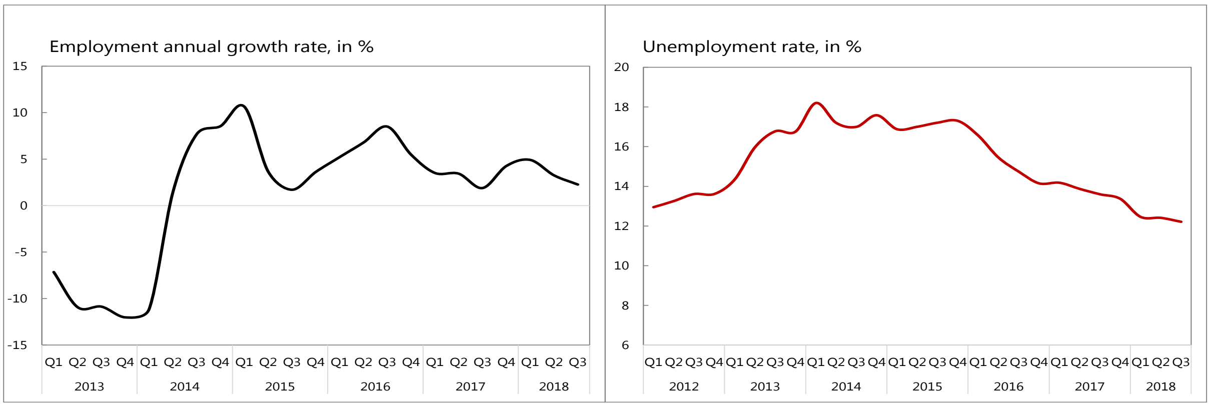



*Source: INSTAT and Bank of Albania. *semi – final data. **preliminary data*

Preliminary indicators point to continued growth in the fourth quarter of 2018, although at a lower rate than the previous quarters of the year. Private consumption and investments are expected to remain the main drivers of aggregate demand.

The aggregate demand expansion has increasingly absorbed spare capacities in the economy, as reflected in the declining path of unemployment rate and higher capacity utilisation. Labour market indicators have been gradually improving.[1] Employment increased respectively by 4.9%, 3.3% and 2.3% in the first three quarters of 2018 and the unemployment rate has declined continuously standing at 12.2% in the third quarter.

Chart 2.1.4: Labour market indicators




*Source: INSTAT, quarterly labour market data.*

According to the new data published by INSTAT[2], the average monthly wage per employee in the economy increased annually by around 3.0% respectively in both 2017 and during the first three quarters of 2018 in nominal terms. Deflated with inflation, the growth rate of wage indicator is 1.0% in 2017 and 0.9% in the first three quarters of 2018. Unit labour costs[3] are estimated to have recorded low growth rates, mainly due to a relatively faster real average wage growth relative to labour productivity.

The gradual acceleration of economy is increasing domestic costs pressures and inflation is gradually picking up. Inflation has followed a slightly upward trend in the first three quarters of 2018, rising from 1.9% in the first quarter to 2.2% in the second and the third one. The main contributors to the headline inflation remain food components, especially the unprocessed ones. The decline in unprocessed inflation during summer has been compensated somewhat by higher oil prices. However, the recent fall in oil prices along with lower unprocessed food inflation has push down headline inflation figures for October and November. Inflation was respectively 1.9% and 1.8%.

Table 2.1.2: Contribution of main categories to annual inflation (in percentage point)*

| | 2016 | | | | 2017 | | | | 2018 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | Q4 | Q1 | Q2 | Q3 | *Oct-Nov Month avergage* |
| Processed food | -0.4 | 0.1 | 0.4 | 0.6 | 0.6 | 0.5 | 0.2 | 0.0 | 0.1 | 0.1 | 0.2 | 0.2 |
| Unprocessed food | 1.5 | 0.9 | 1.2 | 0.9 | 1.3 | 1.1 | 1.2 | 1.3 | 0.9 | 1.1 | 1.0 | 0.7 |
| Services | -0.1 | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Administered prices | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.2 | 0.2 | 0.2 | 0.2 |
| Housing (rent) | -0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.2 | 0.3 | 0.4 | 0.4 | 0.4 |
| Non-food consumer goods | -0.3 | -0.3 | -0.1 | 0.1 | 0.3 | 0.2 | 0.2 | 0.2 | 0.3 | 0.3 | 0.3 | 0.2 |
| Durable goods | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | -0.1 | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **CPI (annual change %)** | **0.7** | **0.7** | **1.9** | **1.9** | **2.4** | **2.0** | **1.7** | **1.8** | **1.9** | **2.2** | **2.2** | **1.8** |

*Source: INSTAT and BoA's calculations. *The table shows some of the main categories of CPI's items.*

[1] The analysis of employment and unemployment is based on the data of the quarterly Labour Force Survey, and it refers to individuals 15 years and older.
[2] On 11 June 2018, INSTAT published for the first time quarterly data on the average monthly wage per employee in the economy. The published data series starts since 2015 Q1. This indicator refers to the gross average monthly wage and its source is the wage list from the General Directorate of Taxation.
[3] The proxy indicators of labour productivity, labour costs per unit of output and average wage from short – term statistics are calculated by the Bank of Albania using the total series from "Short – Term Statistics" (INSTAT, latest publication 2018 Q3).

Core inflation has shown a slight upward trend, reaching 1.0% in the first 11 months of 2018 compared to 0.9% in 2017. In our assessment domestic inflationary pressures are increasing and broadening as economic recovery is strengthening and mid-term inflation expectations are better anchored. On the other hand, the external inflationary pressures continue to be subdued due to the strong domestic currency.

Inflation is expected to fluctuate at around 2.1% in the short term and to reach the Bank of Albania's target by 2020. This projection takes into account the ongoing economic recovery and the disinflationary pressures from the exchange rate receding over the short term.

The current account deficit has narrowed by 11.3% annually in the first nine months of 2018. In the third quarter of 2018, the current account deficit has slightly expanded in annual terms by about 2.6%. The current account deficit performance in this quarter reflects the negative balance of primary income. At the same time, the secondary income surplus has expanded in terms of increased incoming transfers to other sectors.

Net flows of the capital account recorded a positive balance of EUR 62.5 million during the nine months of the year falling by nearly EUR 17.0 million compared with the same period in 2017. Simultaneously, assets in the financial account have increased by nearly EUR 229.1 million. Additionally, direct investment liabilities have increased by nearly 11.6% annually.

The current account deficit was financed completely by non-debt-creating flows consisting primarily of direct investment, which for the nine months of 2018 stood at 158.5% over the current account deficit. International reserve assets recorded EUR 3.1 billion at the end of the third quarter of 2018, enough to cover 6.5 months of imports of goods and services or 160% of gross short term external debt.

The exchange rate has been appreciating in the recent years, in line with the structural improvements of the Albanian economy, as reflected in the narrowing of the current account deficit, higher foreign capital inflows and increased confidence in the domestic currency. However, the appreciation pace in the first half of 2018 was induced also by one-sided expectations for further appreciation. These expectations led to a change in the behaviour of the financial agents creating a demand and supply mismatch in the FX market pushing the exchange rate away from its trend. This situation could have encouraged a vicious cycle with potential negative effects on the financial market, economy and inflation. Within the flexible exchange rate regime in Albania, the Bank of Albania decided to intervene in the forex market. Following the interventions, the appreciation path of the exchange rate stabilized. The temporary foreign exchange intervention reduced the mismatch between supply and demand for foreign currency, calmed the functioning of the forex market and reduced the deviations of the exchange rate from the levels suggested by the fundamentals. In 2018, the average exchange rate Euro/Lek compared to last year has appreciated by 4.8%.

The monetary policy remains accommodative. The intensity of monetary stimulus increased further in June when the policy rate was cut by 0.25 p.p. to 1.00% to tackle the low inflationary pressure and the exchange rate appreciation. Interest rates in the financial market have broadly reflected the accommodative policy stance of the central bank as well as the relatively low government borrowing. Also, the relatively low government borrowing demand has put downward pressures on government paper's yields. Financial markets are liquid and calm suggesting low risk premia. Overall, monetary conditions remain supportive of consumption and investment growth.

Private sector lending is expanding at moderate rate in 2018. Lending to the private sector[4] grew by 2.0% through November 2018. Accounting for exchange rate appreciation, credit growth was slightly higher at around 4-5% per year. Credit demand from the business sector has been volatile, which combined with relatively tight credit standards, have led to a moderate business credit growth. Credit growth for the households continues to perform strongly reflecting a stable demand and eased standards. Credit in local currency continues to be the main driver of credit expansion.

The stock of deposits in the banking system increased annually by 1.1% on average during the period January to November 2018. Deposits in domestic currency grew by 1.3% on average, while those in foreign currency by 0.9%. The latter are affected by the strong appreciation of the domestic currency in 2018.

Economic developments and the performance of financial markets have supported the normal activity of the banking system. The banking system indicators of liquidity, profitability, capitalization and resilience remain strong. NPLs continue to decline, reducing banking system exposure to credit risk. The Bank of Albania's stress tests indicate that the banking system is able to withstand shocks.

## 2.2. Medium-term macroeconomic scenario

### Real sector

The economic outlook is expected to continue the positive trend in the medium term. Economic growth is projected to remain above the level of 4% over the next three years 2019-2021, continuing an acceleration, albeit marginal, over these years. More specifically, the medium-term economic growth of Albania is forecasted to mark the levels of 4.3% in 2019; 4.4% in 2020; and 4.5% in 2021.

In the medium term, growth is expected to be generated mainly by domestic demand, both private consumption and investments. Private consumption is expected to be driven mainly by the improvement of consumer confidence as well as improvements in the labour market. The latter are expected to be transmitted to a gradual increase in wages that are further expected to stimulate the real disposable income of individuals, creating the second-round effect on consumer demand stimulation, as well as intensifying consumer tendency for further consumption financing through a higher credit-taking rate. Meanwhile, consumer loans are forecasted to be fuelled by both the improvement of individual financial conditions and the expected easing of lending standards from the banking system.

Whereas the growth of investments is expected to reflect already more intensive use of existing production capacities, as well as the acceleration of economic activity over the forecast period, and overall improvement of investors perception on macroeconomic stability of the country and lower risk premium over the medium and long term. At the same time, the continuation of the improvement of financial conditions and easing of lending standards as well as accommodative monetary policy and crowding-in government-borrowing policy is expected to be an important incentive factor for private investments in the medium term.

Final consumption for the medium term (2019-2021) is projected to grow in real terms by 3% in average per year, contributing by an average of 2.7 pp. per year to total growth. While investments are projected to grow in real terms at an average of 6.2% per year, with an average contribution to total growth of 1.5 pp. per year.

Net external demand is expected to have a positive but marginal, almost neutral effect in the medium term. Exports of goods are expected to have a positive trend, assuming there will be no significant

[4] In this section credit to private sector includes only credit to residents. Credit data has been adjusted for the effect of the write-offs.

negative shocks to oil and mineral prices in international markets. Exports of services, particularly services on tourism, are also expected to continue the positive trend recorded in the past and will be the main factor in offsetting the negative contribution coming from the increase in imports.

Exports of goods and services for the period 2019-2021 are projected to grow in real terms by an average of 7.0% per year, with an average positive contribution of 2.2 pp. per year to total growth. While imports of goods and services for this medium-term period are projected to expand by 4.7%, with a negative average contribution to total growth by about -2.1 pp. per year. Consequently, net foreign demand is expected to have a very slightly positive contribution to total growth by an average of 0.1 pp. per year.

Chart 2.2.1: Real growth (in %)

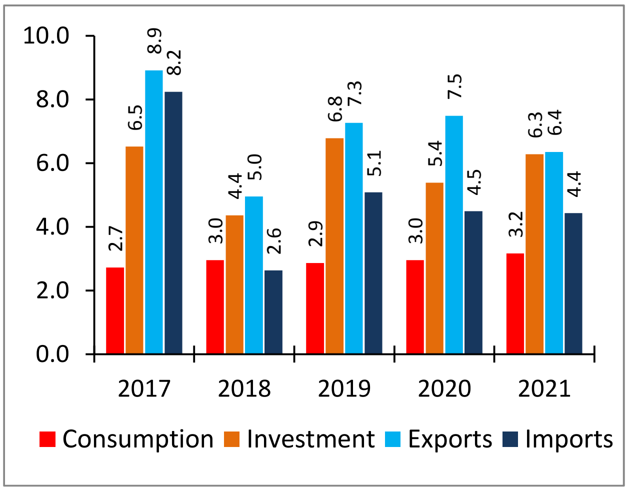



Chart 2.2.2: Contribution to growth (in p.p.) by demand components

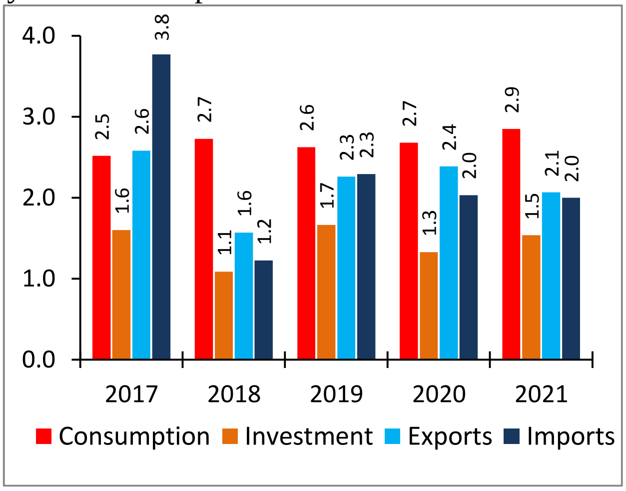



Table 2.2.1: Real growth (left, in %) and contribution to growth (right, in p.p.) by demand components

| | Real Growth (%) | | | | | | | | Contribution to Growth (in p.p.) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 Fore. | 2019 Fore. | 2020 Fore. | 2021 Fore. | 2014 | 2015 | 2016 | 2017 | 2018 Fore. | 2019 Fore. | 2020 Fore. | 2021 Fore. |
| **Final Consumption (a+b+c)** | **3.2** | **0.9** | **2.9** | **2.7** | **3.0** | **2.9** | **3.0** | **3.2** | **3.0** | **0.8** | **2.7** | **2.5** | **2.7** | **2.6** | **2.7** | **2.9** |
| Final Consumption of the Households | 2.8 | 0.9 | 2.6 | 2.7 | 2.9 | 2.9 | 2.9 | 3.2 | 2.2 | 0.7 | 2.0 | 2.2 | 2.4 | 2.3 | 2.3 | 2.5 |
| Final Consumption of General Government | 6.4 | -1.1 | 4.7 | 2.7 | 3.2 | 2.9 | 3.4 | 2.7 | 0.7 | -0.1 | 0.5 | 0.3 | 0.4 | 0.3 | 0.4 | 0.3 |
| Individual consumption | 5.3 | -3.9 | 1.3 | 1.0 | 8.7 | 2.3 | 2.8 | 2.6 | 0.3 | -0.2 | 0.1 | 0.1 | 0.5 | 0.1 | 0.1 | 0.1 |
| Colective consumption | 7.5 | 1.7 | 7.9 | 4.1 | -1.4 | 3.5 | 3.9 | 2.8 | 0.4 | 0.1 | 0.5 | 0.2 | -0.1 | 0.2 | 0.2 | 0.2 |
| Consumption of NPISHs | 10.0 | 41.7 | 16.4 | 4.1 | 1.0 | 1.0 | 1.0 | 2.0 | 0.1 | 0.2 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Gross Fixed Capital Formation** | **-4.5** | **3.5** | **3.3** | **6.5** | **4.4** | **6.8** | **5.4** | **6.3** | **-1.2** | **0.8** | **0.8** | **1.6** | **1.1** | **1.7** | **1.3** | **1.5** |
| Public | -3.8 | 4.6 | 0.6 | 10.9 | 9.9 | 6.4 | 3.0 | 4.9 | -0.2 | 0.2 | 0.0 | 0.6 | 0.5 | 0.4 | 0.2 | 0.3 |
| of wich Central Government: | -7.2 | 5.4 | 1.4 | 5.4 | 10.7 | 7.1 | 2.2 | 4.7 | -0.4 | 0.2 | 0.1 | 0.2 | 0.5 | 0.3 | 0.1 | 0.2 |
| Private | -4.8 | 3.2 | 4.1 | 5.4 | 2.8 | 6.9 | 6.1 | 6.7 | -1.0 | 0.6 | 0.8 | 1.0 | 0.5 | 1.3 | 1.2 | 1.3 |
| **Domestic Absorption (1+2)** | **1.5** | **1.4** | **3.0** | **3.5** | **3.3** | **3.7** | **3.5** | **3.8** | **1.8** | **1.7** | **3.5** | **4.1** | **3.8** | **4.3** | **4.0** | **4.4** |
| **Net export^ (a-b)** | **9.2** | **-8.6** | **0.0** | **7.1** | **-2.3** | **0.2** | **-2.6** | **-0.5** | **-1.7** | **1.6** | **0.0** | **-1.2** | **0.3** | **0.0** | **0.4** | **0.1** |
| Exports of goods and services (f.o.b) | 1.2 | 1.0 | 11.3 | 8.9 | 5.0 | 7.3 | 7.5 | 6.4 | 0.3 | 0.3 | 3.1 | 2.6 | 1.6 | 2.3 | 2.4 | 2.1 |
| Exports of goods | -12.9 | -17.1 | -5.8 | 3.6 | 15.0 | 7.2 | 8.3 | 7.7 | -1.4 | -1.6 | -0.4 | 0.2 | 1.0 | 0.5 | 0.6 | 0.6 |
| Exports of services | 9.9 | 9.9 | 17.9 | 10.5 | 2.2 | 7.3 | 7.2 | 5.9 | 1.8 | 1.9 | 3.5 | 2.3 | 0.5 | 1.7 | 1.7 | 1.5 |
| Imports of goods and services (f.o.b) | 4.3 | -2.9 | 6.9 | 8.2 | 2.6 | 5.1 | 4.5 | 4.4 | 2.0 | -1.4 | 3.1 | 3.8 | 1.2 | 2.3 | 2.0 | 2.0 |
| Imports of goods | 4.7 | -1.9 | 8.0 | 7.7 | 2.1 | 4.8 | 4.4 | 4.8 | 1.5 | -0.6 | 2.4 | 2.4 | 0.6 | 1.5 | 1.3 | 1.4 |
| Imports of services | 3.4 | -4.9 | 4.9 | 9.4 | 3.8 | 5.6 | 4.6 | 3.7 | 0.5 | -0.8 | 0.7 | 1.4 | 0.6 | 0.8 | 0.7 | 0.6 |
| **Change in inventories** | **-20.2** | **-1.9** | **-15.3** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** | **-0.4** | **0.0** | **-0.2** | **0.0** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Statistical discrepancy** | **-193.9** | **-99.0** | **-16.5** | **-65.0** | **0.0** | **0.0** | **0.0** | **0.0** | **2.1** | **-1.1** | **0.1** | **0.9** | **0.0** | **0.0** | **0.0** | **0.0** |
| **Gross Domestic Product (3+4+5)** | **1.8** | **2.2** | **3.4** | **3.8** | **4.2** | **4.3** | **4.4** | **4.5** | **1.8** | **2.2** | **3.4** | **3.8** | **4.2** | **4.3** | **4.4** | **4.5** |

Although fiscal policy will clearly continue to be oriented toward consolidation in the medium and long term, the government budgetary policy to preserve a level of public investments at around 5% of GDP in 2019-2021 will additionally stimulate gross fixed capital formation in the economy, which is crucial to sustain relatively high growth levels in the medium and long term ahead. On the other hand, relatively low levels of government net new domestic borrowing foreseen for the medium term ahead will leave more space to the private sector and create incentives for crowding-in of private investments. At the same time, the accommodative stance of monetary policy foreseen for medium term, as long as the inflationary low pressures are expected to remain at the bottom end, will support both private consumption and investment.

The government targeted fiscal consolidation will therefore constrain the overall public sector demand. As such, it is not expected to be a growth driver over the medium-term. However, fiscal consolidation will reduce the risk premium in the medium term and increase the scope for stimulating the private sector. At the same time, the composition of planed budgetary policies are growth supportive and therefore the tightening effects of fiscal consolidation are expected to be offset.

From the aggregate supply optics is expected that all main sectors to perform in line with their average historical growth rates. Specifically, agriculture is expected to grow in real terms by 3.4% in average per year, with an average contribution of 0.6 p.p. per year; industry[5] by an annual average of 6.4%, contributing by in average by 0.8 p.p per year; construction by 4.8% with an annual average contribution of 0.5 p.p; and services by an average 4.1% per year with the highest contribution in growth due to their weight with an average of 1.9 p.p. per year.

Chart 2.2.3: Real growth (in %)

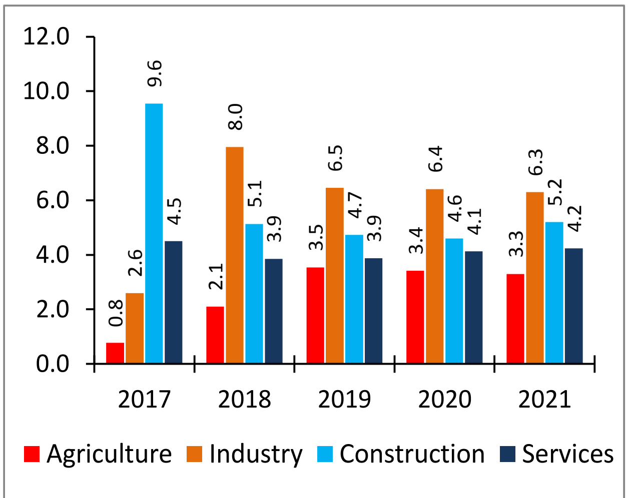



Chart 2.2.4: Contribution to growth (in p.p.) by supply components

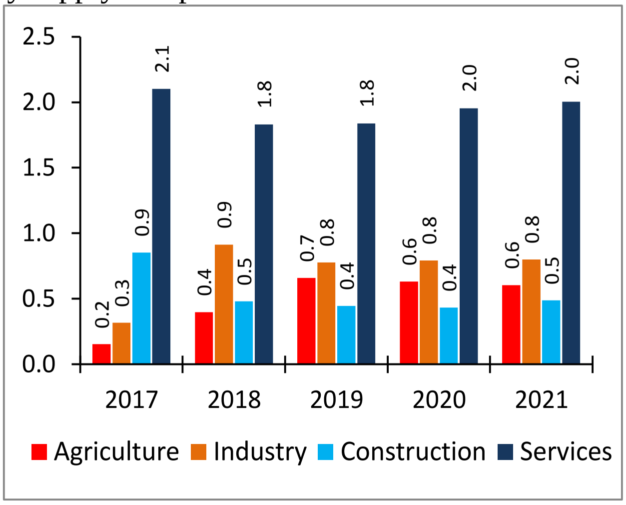



Table 2.2.2: Real growth (left, in %) and contribution to growth (right, in p.p.) by supply components

| | Real Growth (%) | | | | | | | | Contribution to Growth (in p.p.) | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2014 | 2015 | 2016 | 2017 | 2018 Fore. | 2019 Fore. | 2020 Fore. | 2021 Fore. | 2014 | 2015 | 2016 | 2017 | 2018 Fore. | 2019 Fore. | 2020 Fore. | 2021 Fore. |
| Agriculture, forestry and fishing | 2.0 | 0.8 | 1.7 | 0.8 | 2.1 | 3.5 | 3.4 | 3.3 | 0.4 | 0.2 | 0.3 | 0.2 | 0.4 | 0.7 | 0.6 | 0.6 |
| Mining and quarrying industry | 11.7 | -8.0 | -12.1 | 6.5 | 8.4 | 9.8 | 9.3 | 7.3 | 0.6 | -0.4 | -0.4 | 0.2 | 0.2 | 0.3 | 0.3 | 0.2 |
| Manufacturing industry | 9.4 | 5.0 | 4.3 | 8.7 | 5.1 | 5.9 | 5.6 | 6.3 | 0.5 | 0.3 | 0.2 | 0.5 | 0.3 | 0.3 | 0.3 | 0.4 |
| Electricity, gas, steam and air conditioning supply | -22.8 | 7.7 | 9.9 | -9.8 | 14.4 | 5.3 | 5.9 | 5.8 | -0.5 | 0.1 | 0.3 | -0.3 | 0.4 | 0.2 | 0.2 | 0.2 |
| Water supply; sewerage, waste management and remediation activities | 3.4 | 1.1 | 0.3 | 1.1 | 2.7 | 3.2 | 3.7 | 3.7 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Construction | -13.3 | 6.2 | 3.1 | 9.6 | 5.1 | 4.7 | 4.6 | 5.2 | -1.4 | 0.5 | 0.3 | 0.9 | 0.5 | 0.4 | 0.4 | 0.5 |
| Wholesale and retail trade; repair of motor vehicles and motorcycles | 3.8 | -1.9 | 2.2 | 4.6 | 3.9 | 4.3 | 4.7 | 4.6 | 0.4 | -0.2 | 0.2 | 0.5 | 0.4 | 0.5 | 0.5 | 0.5 |
| Transportation and storage | -2.1 | 6.5 | 5.8 | 5.1 | 3.4 | 3.9 | 3.8 | 3.5 | -0.1 | 0.2 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Accommodation and food service activities | 3.6 | 6.7 | 11.8 | 4.8 | 2.8 | 3.3 | 2.9 | 3.1 | 0.1 | 0.1 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Information and communication | 3.0 | 7.6 | 6.1 | 1.3 | 1.8 | 2.4 | 2.3 | 2.8 | 0.1 | 0.2 | 0.2 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Financial and insurance activities | 2.1 | 5.1 | 8.7 | 11.3 | 2.2 | 2.0 | 2.2 | 2.6 | 0.0 | 0.1 | 0.2 | 0.3 | 0.1 | 0.1 | 0.1 | 0.1 |
| Real estate activities | -0.1 | 0.8 | 1.1 | 1.6 | 1.4 | 1.9 | 2.1 | 2.4 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| Professional, scientific and technical activities | 20.2 | 6.1 | -0.3 | -0.4 | 4.8 | 4.7 | 5.3 | 5.4 | 0.4 | 0.2 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 |
| Administrative and support service activities | 19.0 | 13.9 | 14.0 | 5.1 | 8.1 | 5.8 | 7.1 | 6.7 | 0.4 | 0.3 | 0.4 | 0.2 | 0.3 | 0.2 | 0.2 | 0.2 |
| Public administration and defence; compulsory social security | 6.9 | 2.2 | 5.3 | 4.9 | 4.8 | 4.1 | 5.2 | 5.1 | 0.3 | 0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Education | -4.4 | -0.4 | -2.6 | 5.7 | 4.4 | 4.5 | 4.8 | 5.4 | -0.2 | 0.0 | -0.1 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| Human health and social work activities | 12.4 | 2.7 | 5.8 | 7.7 | 4.7 | 4.9 | 4.2 | 4.6 | 0.3 | 0.1 | 0.2 | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 |
| Arts, entertainment and recreation | 48.5 | -0.2 | -0.7 | 0.2 | 4.1 | 3.2 | 2.7 | 2.3 | 0.4 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Other service activities | 4.4 | 12.7 | 24.1 | 10.1 | 4.3 | 4.4 | 3.0 | 3.0 | 0.0 | 0.1 | 0.3 | 0.2 | 0.1 | 0.1 | 0.0 | 0.0 |
| **GVA at basic prices** | **2.1** | **2.3** | **3.2** | **3.9** | **4.1** | **4.2** | **4.4** | **4.4** | **1.9** | **2.0** | **2.8** | **3.4** | **3.6** | **3.7** | **3.8** | **3.9** |
| Net taxes on products | -0.7 | 1.8 | 4.3 | 3.4 | 4.2 | 4.3 | 4.5 | 4.5 | -0.1 | 0.2 | 0.5 | 0.4 | 0.5 | 0.5 | 0.6 | 0.6 |
| **GDP at market prices** | **1.8** | **2.2** | **3.4** | **3.8** | **4.2** | **4.3** | **4.4** | **4.5** | **1.8** | **2.2** | **3.4** | **3.8** | **4.2** | **4.3** | **4.4** | **4.5** |

[5] Industry: include both mining and manufacturing industry

In line with the medium term growth projections, employment is expected to grow by an average of 2.7% per year during 2019-2021. Higher labour force participation rate is expected to be the main driver of labour supply growth. Whereas the growth of labour demand is expected to reflect more or less the same structure as the aggregate supply of economic activity. Therefore services are expected to contribute more in the labour demand increase then the rest of economic supply sectors. Despite the expected expansion of employment over the medium term, again, overall labour productivity is expected to have a slight improvement over this period. Unemployment is expected to continue a gradual reduction reaching at 9.8% in 2021.

Chart 2.2.5: Employment (y-o-y growth in %)

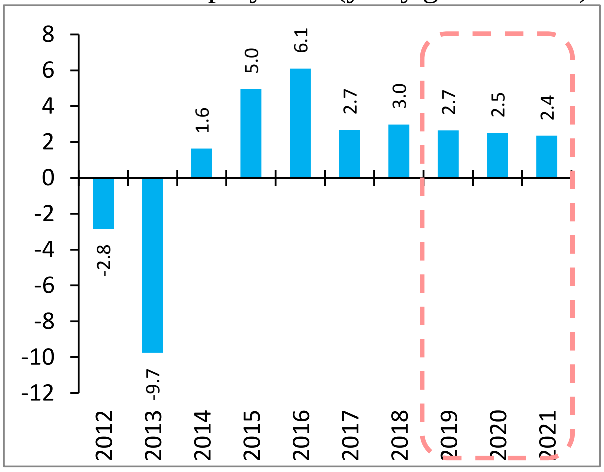
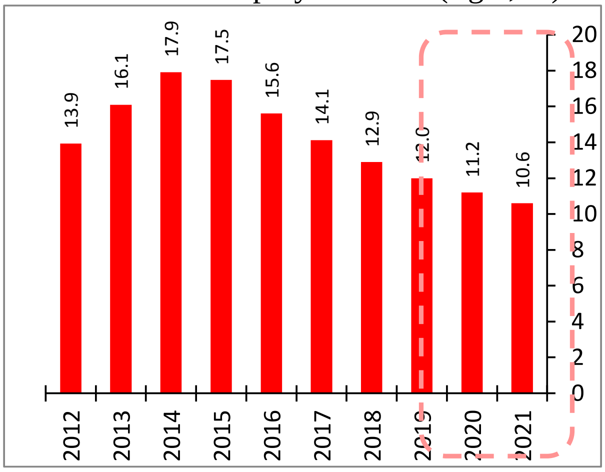



Chart 2.2.6: Unemployment rate (right, %)




*Source: Ministry of Finance and Economy*

**Monetary and exchange rate policy and inflation**

The main objective of monetary policy is to achieve and maintain price stability. The monetary policy is operated under an inflation-targeting regime, where the objective for inflation is set at a level of 3.0% over the medium term. The main instrument for achieving the target is the interest rate applied in reverse repo operations with one-week transaction maturity. In line with the chosen monetary strategy, the Bank of Albania pursues a free-floating exchange rate regime where the central bank is refrained from intervening, except for reasons related to reserve adjustment, correct market disorders and misalignments from fundamentals.

The domestic currency experienced a sharp appreciation during 2018 estimated to be faster that the underlying trend dictated by structural fundamentals. The trend appreciation reflects the improvements in the external balance of the country, a faster economic growth relative to our trading partners and the fall of country risk premia. In 2018, the exchange rate has been subject to shocks, especially in the second quarter of the year. Changes in the financial agents' behaviour preceded by one-sided unfounded market expectations for further appreciation of the exchange rate in the period ahead brought about mismatches in the supply and demand for foreign currency. Consequently, the exchange rate continued to appreciate faster, deviating from the trend suggested by the fundamentals, creating thus conditions for a vicious circle that could have potential negative effects in the financial market, in the real sector and on inflation. As a result, the monetary stimulus was further increased in June by lowering the policy rate to 1.00% with the aim of propping up domestic demand as well as increase depreciation pressures on the currency. To complement this, the Bank of Albania initiated foreign currency interventions.

The temporary interventions in the domestic foreign exchange market have been successful in reducing the supply and demand mismatch and calming the market. It has also helped to reduce the deviation of the exchange rate from its long-term trend. The appreciation rate of the exchange rate has slowed down in the second half of the year. Interventions in the foreign exchange market will remain in place until deflationary risks to price stability recede. The Bank of Albania retains that the exchange rate regime is free floating.

The accommodative monetary policy has supported economic recovery. Household consumption and investments are the main growth drivers benefiting from favourable financial conditions –the low interest rate environment and sustained growth in lek credit – improved confidence and labour market outcomes and favourable external conditions. Domestic inflationary pressures have increased reflecting the improvement of cyclical position of the economy, amid higher capacity utilisation and tightening labour market. On the other hand, the appreciation of the domestic currency has limited the overall transmission of foreign inflationary pressures to domestic prices. The Bank of Albania expects the appreciating pressures on the exchange rate to dissipate in the medium term and the negative impact of exchange rate on prices to fade. The Bank of Albania expects the economic growth to continue in the period ahead allowing for the output gap to fully close in the second half of 2019. The inflation rate is expected to rise gradually reaching the target in a sustainable manner within 2020.

The monetary policy stance will remain accommodative over the medium term consistent with the steady convergence of inflation to target. The forward guidance and the projected medium-term policy rate path suggest that monetary policy will start normalizing gradually by next year. Nevertheless, the policy rate will continue to remain below its natural rate over the medium term horizon.

The balance of risks remains skewed on the downside. These are primary linked to the uncertainties in the external environment, the future developments in the foreign exchange market and the recovery of domestic lending. The latter is expected to be supported by expansion of economic activity, contributing to increasing demand, and by the declining trend of nonperforming loans, contributing to easing credit standards. Further, the measures that are being implemented to expand the use of domestic currency in the financial markets are expected to support the transmission of accommodative monetary policy in the economy and to strengthen the stability of the financial system in the medium term.

The accommodative monetary policy stance is consistent with the fiscal consolidation drive aimed at reducing the government debt. Fiscal policy is expected to follow a consolidation path to address public debt vulnerabilities and facilitate private sector financing. This policy mix is deemed adequate to ensure a sustainable economic growth and to safeguard financial stability. Additionally, the policy mix is expected to gain from the successful implementation of structural reforms that aim to increase competitiveness and the potential growth of the country.

**External sector and its medium-term sustainability**

***Balance of Payment and merchandise trade developments***

During the first nine months of 2018, the current account deficit has narrowed by 11.3% annually. The principal driver is the increase in net remittance inflows. Their annual growth rate is estimated at nearly 8.0%. Net Service exports' also contributed positively to the improved current deficit. In the case of commodity trade, exports annual growth recorded double-digit figures due to the rapid expansion of electricity exports. Imports also expanded with the overall trade deficit in goods increasing annually by 0.2%.

Exports of goods have followed a positive trend in 2018. Exports of "electricity", "fuel", "construction materials and metals" intensified whereas growth rates for "textiles" and "foodstuffs" decelerated somewhat. Overall, merchandise exports recorded a 15.0% annual growth rate for the first 11 months of 2018.

The real effective exchange rate (REER) appreciation has accelerated in 2018, following a similar pattern to the nominal effective exchange rate (NEER) as the inflation differential with trade partners was minimal. The annual real appreciation was on average 7.4% until November 2018.

In terms of export destination, higher exports share were recorded for Switzerland, Serbia, Kosovo and Macedonia as a result of higher "electricity" and "metal" exports. Nevertheless, the overall destination structure remains relatively concentrated with Italy receiving more than 50% of overall commodity exports. The commodity structure reflects similar patterns of concentration with "textile and garments" constituting over 40% of overall exports.

Chart 2.2.7: Trade openness, exports, imports and Net FDI as percentage to GDP

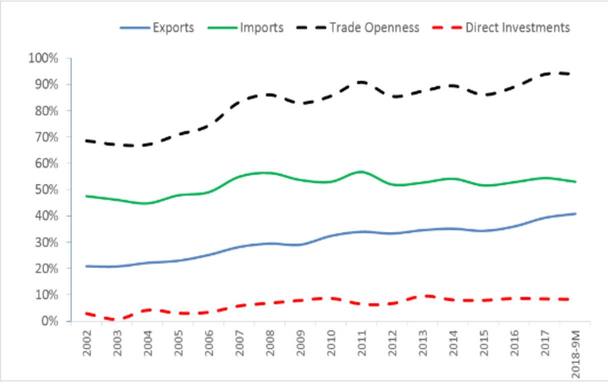
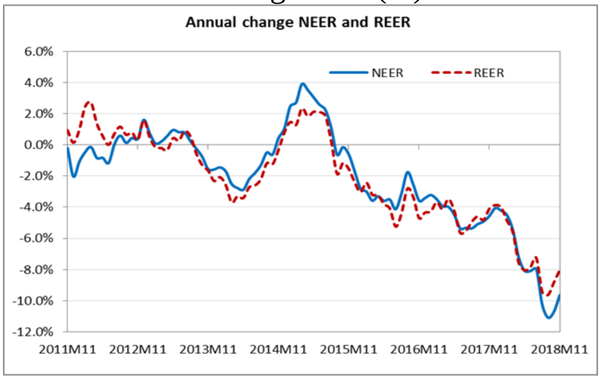



Chart 2.2.8: Annual changes of nominal and real effective exchange rates (%)




*Source: Bank of Albania, INSTAT*

According to the Constant Market Share (CMS)[6] decomposition of Albanian exports, increased competitiveness (residual component) has been the leading contributor to export growth towards the EU-15 area in 2017 followed by world export growth. On the other hand, negative contributions are associated with market distribution and commodity composition. In the case of trade with CEFTA countries, world export growth and commodity composition were the main drivers for increased Albanian exports.

Table 2.2.3: Decomposition of Albanian Exports using the CMS methodology (EUR million)

| | 2017 | |
|---|---|---|
| | **EU -15** | **CEFTA** |
| World Export Growth | 103.8 | 20.3 |
| Commodity composition | -17.1 | 13.8 |
| Market Distribution | -9.4 | 8 |
| Competitiveness | 146.1 | -19.7 |
| **Total** | **223.4** | **22.4** |

*Source: Bank of Albania, INSTAT, UN Comtrade*

The service account has reflected positive developments throughout 2017 and in the first nine months of 2018. In 2017, service growth was mostly associated with enhanced performance from other services and travel receipts. In the first nine months of 2018, service growth is associated with travels receipts and somewhat with physical input exports. Travelling imports have increased by 14.0% in the first nine months of 2018, in accelerating trend compared with the previous year.

Primary income reflected a net deficit at EUR 18.1 million in the first nine months of 2018 as compared with a net surplus of EUR 21.5 million in the first nine months of 2017. The dynamics

[6] See http://go.worldbank.org/KQCHUD4JN0 for a discussion on CMS.

were largely linked to increased income outflows and shrinking income inflows associated with direct investment.

The secondary income surplus has expanded by nearly 13.4% annually in the first nine months of 2018. Net remittances increased by 8.0% annually.

The current account deficit is expected to contract by 3.6% in 2018 due to decreasing trade deficit and higher remittances. Nevertheless, the deficit is expected to expand in 2019 as a result of exports decelerating. The expected fall in international commodity prices is staged to impact Albanian commodity exports in 2019. Service exports are to make up for some of the commodity losses but unable to maintain an overall export growth to the levels of 2018. Additionally, with imports on the rise (due to anticipated growth in domestic production and aggregate demand), further pressures for trade deficit and current deficit expansion are expected. Finally, remittance inflows are forecasted to increase in 2019 but at lower rates compared with 2018.

Net foreign direct investments have increased by 1.2% on annual aggregate terms during the first nine months of 2018. The growth was mainly concentrated in the first quarter of the year. FDIs associated with the major projects in the energy sector (in particular the Trans-Adriatic Pipeline) have been on the forefront of recent dynamics. However, as the major projects enter in the final stages of construction, lesser FDI inflows are expected. As a result, FDI inflows in 2018 are expected to remain at comparable levels compared with 2017.

Portfolio investment reflected net asset flows at EUR 127.2million across the first nine months of 2018 compared to net liabilities at EUR 127.8 million in the first nine months of 2017. Increased domestic investment (from Deposit-taking corporations) in the form of debt securities was behind this development. In the case of other investment flows, assets of deposit-taking corporations in the form of "currency and deposits" increased. However, the overall balance in this sub-account was determined by the expansion of foreign borrowing from other sectors (predominantly government guaranteed debt) which occurred mainly in the second quarter of 2018.

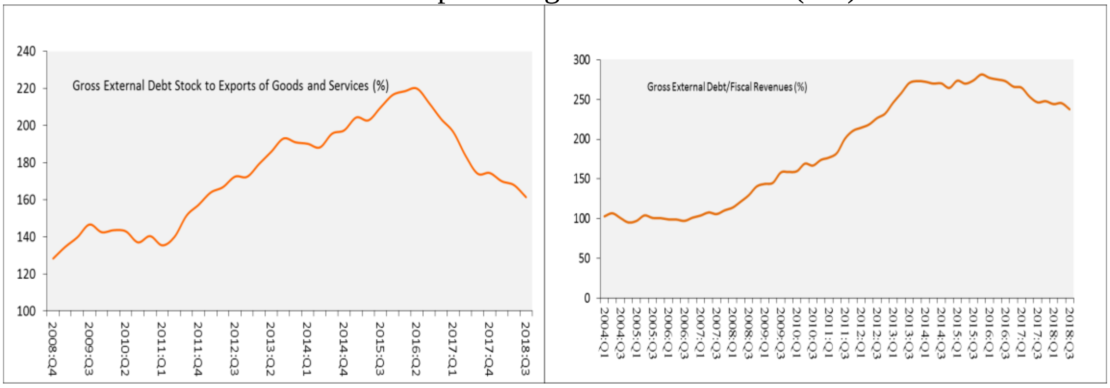
In terms of current deficit, financing, non-debt-creating flows mainly in the form of Direct Investment remain the primary contributor.

***External Debt developments***

The stock of the gross external debt of Albania reached EUR 8,041.3 million in the third quarter of 2018 standing at 64.5% on nominal GDP. Long-term debt constitutes 79.6% of total gross debt composed primarily of long-term loans to the general government and other sectors. Short-term debt stands at 20.4% of total debt.

From a sustainability perspective, the long-term repayment capacity indicators of the external debt of Albania have recently improved. The ratio of gross external debt over exports of goods and services stood at 161.3% at end of the third quarter of 2018, down from 174.0% a year ago. Additionally, the ratio of external debt stock over fiscal revenues stood at 237.5% as compared to 246.3% a year ago. The ratio of the general government's debt stock over fiscal revenue stood at 104.2% down from 107.9% a year ago. Liquidity adequacy indicators reveal low pressures from overall debt servicing. The ratio of reserve assets over short-term external debt stood at 160% at the end of the third quarter of 2018. At the same time, the ratio of external debt amortization over exports of goods and services recorded 11.3%.

Chart 2.2.9: External debt over exports of goods and services (left) and over fiscal revenues (right)

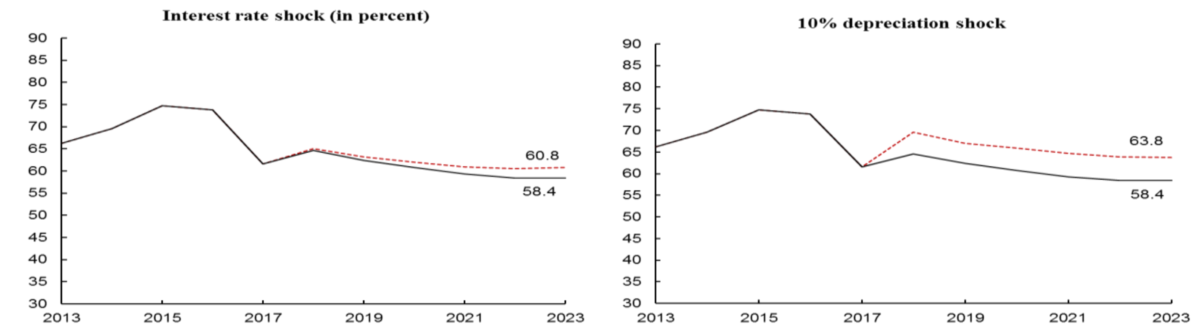



*Source: Bank of Albania*

The short-term external debt stock over nominal GDP ratio stood at 13.1% at the end of the third quarter of 2018, down from 13.9% in the third quarter of 2017. At the same time, the ratio of exports of goods and services over short-term external debt stands at 304.3% up from 283.2% in the third quarter of 2017.

Risks to external debt sustainability analysis show higher vulnerability to exchange rate shocks rather than interest rate shock in the future. In this aspect, two separate shock simulations are conducted. In the first scenario, the interest rate for external debt increases permanently by two standard deviations whereas in the other a 10% temporary real domestic currency depreciation is introduced for year 2018. The deviation of the external debt is clearly more profound under the depreciation scenario.

Chart 13: Gross External Debt to GDP at baseline and under risk scenarios: Nominal interest rate shock (left) and real depreciation shock (right)

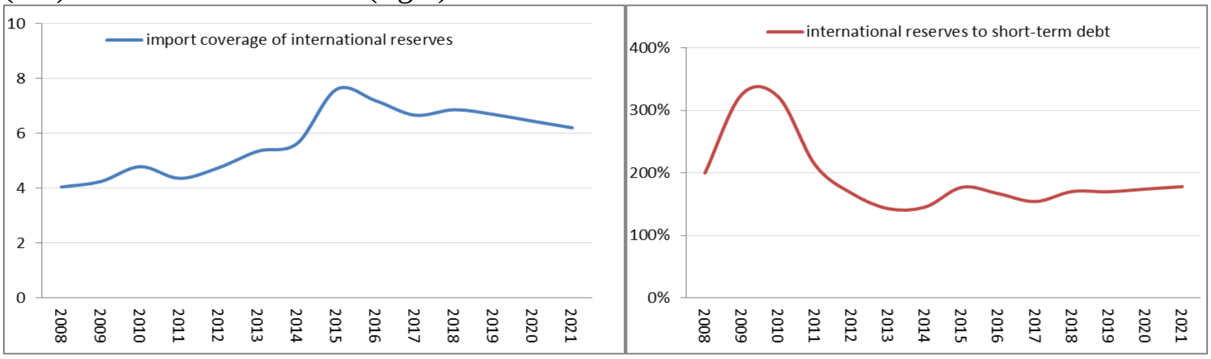



*Source: Bank of Albania*

***Reserve stock developments***

The adequacy criteria for the stock of International Reserves held by Bank of Albania is determined in terms of a minimum of 4 months of imports of goods and services and 100% coverage of the external short-term debt. The stock of reserves in 2018 is estimated to cover on average around 6.5 months of imports of goods and services and almost 155% of the short-term debt. In the medium run as well, both these criteria are expected to remain well above their adequacy levels.

Chart 2.2.10: Projection of international reserves relative to imports of goods and services in months (left) and to short-term debt (right).




*Source: Bank of Albania*

## Financial sector

### Main developments in financial sector

The overall macroeconomic environment and performance have been conducive to smooth operating conditions for the financial system and a low level of risk in the past 12 months up to end-September 2018. Although total assets of both banks and non-banking financial institutions recorded positive annual growth, the growth rate was smaller than the growth rate in the nominal GDP. As a result, the relative size of the financial system as measured by the share of total assets to GDP by end of H1-2018 dropped by ca. 3 p.p. to 108% compared to the end of 2017, as a result of the decline in the share of banking sector assets to 97% from 99% at the end of 2017. The relevant appreciation of the exchange rate during H1-2018, has had a dampening impact on reported financial sector assets and their growth. The direct exposure of the banking sector to the non-banking sector is fairly limited in size and growth, whereas the exposure of non-banking institutions to the banking sector remains significant. The quality of bank credit has continued to improve mainly as a result of write-offs, repayments and ensuing loan reclassification. The decline in the stock of NPLs has been accompanied by a larger decline in the loan loss provisioning, which has resulted in a moderate drop in the NPL coverage ratio (with specific provisions). The collateral coverage has improved, mostly due to the expansion of loans covered with collateral other than real estate.

***Non-bank financial institutions***

As at end of June 2018, 30 non-bank financial institutions (NBFIs) were operating in Albania. These entities offer services related to microcrediting, lending, leasing, factoring, e-money, payments etc. NBFIs specializing in lending followed by those offering payment and transfer services represent the majority of NBFIs in the domestic market. Total assets of NBFIs reached ALL 47 billion and were up by 6% and 10% in semi-annual and annual terms. The financial result was small but positive and slightly higher compared to that of the previous year. The capital adequacy is adequate and the ratio of NPLs stood at 11.6%, which is slightly below the average level of 2017. As at end of June 2018, 13 savings and loans associations (SLAs) were active in the domestic market. Their activity has increased in semi-annual and annual terms and their financial result was positive but slightly smaller compared to the previous year. Net loans to members and investments in banks represent the main items in the SLAs balance sheet. The total assets of the 11 insurance and reinsurance companies reached ALL 30 billion and grew by 4% yoy. Investment in banks represent 30% of the total assets of insurance companies. Gross written premiums[7], with the main contribution from non-life premiums (92%), which represent the main source of funding expanded by 4% in annual terms. Investment funds[8] have decreased their investment in government securities and the value of their net assets fell to ALL 66 billion from ALL 72 billion the previous year. The assets of the 4 active investment funds are mainly invested in ALL and Euro T-bills and bonds issued by the Albanian

[7] AFSA, "Insurance Market Statistical Report: January-June 2018", published on 25 July 2018.
[8] AFSA, "Investment fund", 30 June 2018, published 27 August 2018

Government. The activity of the 3 supplementary private pension funds[9] is concentrated in investment in government debt securities and the total assets of these funds increased by 16% to ALL 2 billion compared to the end of 2017.

***Banks and bank lending***

The structure of the Albanian banking sector in terms of number of banks and size of individual banks has changed over the course of 2018 as a result of two mergers by absorption that took effect in September 2018[10]. Assets of the Albanian banking sector, as reported by them, increased by 3% yoy in September and around 2% during the first half of 2018. The banking sector has continued to expand as measured by the assets size, but the annual growth rate is slightly lower than the 4% average of 2015-2017. The slowdown in the growth rate of banking sector assets was aggravated by the appreciation of the exchange rate over the period, with a reducing impact on banking sector assets of around 3%. Within assets, lending activity which accounts for around 40% of total assets, contracted by 3.5% yoy in September. Banking sector investment in Government debt securities accounted for around 23% of total assets.

The capitalization level of the banking sector has gone up mainly as a result of regulatory reductions in the value of risk-weighted exposures. The profitability and liquidity ratios remain high. Deposits represent about 80% of the total liabilities and continue to be the main funding source of the lending activity. The loan/deposits ratio has continued to decline gradually and stood at 50% at the end of September 2018 from an average of 52% in 2016-2017 and from 56% at the end of 2014. Lek deposits grew by 1.4% yoy in September 2018 due to a slight increase in the respective interest rates. Although foreign currency deposits have continued to increase and support overall deposit growth, the positive growth rate of foreign currency deposits (0.9% yoy in September 2018), has been subdued by the appreciation of the domestic currency against the Euro and the USD. The banking sector dependence on external sources of funding remains limited. Albanian banks have a net creditor position vis-a-vis non-resident entities and this position has remained unchanged from the previous year. Borrowing from parent groups has gone down, whereas the majority of liabilities of domestic banks to parent banking groups are in the form of credit lines. The quality of the loan portfolio continued to improve although at a slower rate than the previous two years. The NPL ratio at the end of September was 12.9% from 14.8% at end September 2017.

Table 2.2.4: Non-performing loans (in percent)

| **Non-performing loans (%)** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** | **Q3-2018** |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 6.64 | 10.48 | 13.96 | 18.77 | 22.49 | 23.49 | 22.8 | 18.22 | 18.27 | 13.2 | 12.9 |

The liquidity position of the banking sector is robust and liquidity risk remains low. The ratio of liquid assets to total assets increased to 33.5% from 29% a year ago. The banking sector resilience to direct exchange rate and interest rate risk is considered strong. The net open foreign exchange position to regulatory capital (long) stood at 5.6% and was well below the upper regulatory limit of 30%. However the exposure to indirect market risk from unhedged borrowing in foreign exchange remains relatively high, although the share of unhedged loans to total loans has registered a slight decline. As at end September 2018, unhedged foreign currency loans accounted for about 24% of total loans and 43% of foreign currency loans. Possibly rising interest rates, both in domestic and foreign currency, could have a negative indirect impact on the banking sector balance sheet, as the lending with variable interest rate dominate in the loan portfolio.

[9] AFSA, Statistical Report "Developments in the private supplementary pensions", 30 June 2018, published on 16 August 2018.

[10] The latest data belong to September 2018. There are 14 banks of which: 3 are Albanian banks and 11 are foreign owned banks. The Supervisory Council of the Bank of Albania, in its meeting of 6 September 2018, approved the merger by absorption between Intesa Sanpaolo Albania sh.a. and Veneto Banka sh.a and the merger by absorption between American Bank of Investments sh.a. and NBG Albania sh.a. None of the foreign owned banks operate as a branch.

The capitalization level of the banking sector exceeds regulatory requirements and has continued to improve over the first three quarters of 2018. At end of September 2018 the Capital Adequacy Ratio (CAR) was 18.2%, from 16.4% the previous year. The improvement in the CAR was caused by an increase of 2.2% in the regulatory capital, as a result of the improved financial performance, and a strong decline of 8% in the volume of risk-weighted assets (RWAs). The decline in the volume of RWAs was brought about by the abrogation of the countercyclical measure on capital increase for investment by non-residents in foreign currency[11], and the reduction in the demand for capital on credit risk. As at end September 2018, the level of RWAs reached about ALL 800 billion. RWAs for credit risk dropped by 2.6% yoy mainly due to a contraction in high risk exposures and in exposures to supervised institutions. Capital requirements for market and operational risk recorded marginal increases of 1.8% and 1.1% from the previous year.

The domestic banking sector has continued to generate a positive net financial result, albeit this result was slightly lower compared to the previous year. The drop in the financial result was caused from higher losses from financial instruments and higher operational expenses, but provisioning expenses were also lower compared to those of the same period of 2017. The contraction in the financial result was reflected in smaller RoA and RoE levels compared to one year before. RoA dropped to 1.3% from 1.6% and RoE dropped to 12.9% from 16.3%.

Table 2.2.5: Core-activity profitability indicators, in percentage (cumulative)

| Ratios | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|---|---|---|---|---|---|---|---|---|---|---|
| Interest income/average interest-earning assets (1) | 8.1 | 8.11 | 7.78 | 7.73 | 7.31 | 6.28 | 5.72 | 5.2 | 4.71 | 4.47 |
| Interest expenses/average interest-paying liabilities (2) | 4.06 | 3.78 | 3.57 | 3.72 | 3.42 | 2.14 | 1.29 | 0.94 | 0.69 | 0.65 |
| Net Interest Margin (NI M) {(1)-(2)} | 4.04 | 4.32 | 4.2 | 4.01 | 3.88 | 4.15 | 4.42 | 4.23 | 3.92 | 3.73 |

The banking sector continues to display stability in terms of allocating and using financial resources. This is reflected in the concentration indicators. Concentration is relatively higher in total assets and deposits and lower in the lending activity. However, a slight improvement in the values of the indicators shows increased competitiveness in 2018 compared to preceding years.

***Bank Lending***

At the end of September 2018, the total loan portfolio of the banking sector was equal to ALL 586 billion. In nominal terms, the credit portfolio shrunk by about ALL 20 billion or by 3.5% yoy. After a period of modest annual growth in the range of 1-2% between mid-2016 – end of 2017, the growth in the total credit stock came to a halt in Q1-2018 and turned negative over Q2- and Q3-2018. The amount of lost loans that were written off from the banks' balance sheets in the last 12 months to September was ALL 10 billion. This resulted in an annual decline of 33% in the stock of lost loans. Foreign currency loans continue to account for more than half of the total credit stock (57%). The stock of Lek loans contracted by 2.1% yoy and credit in foreign currency contracted by 4.6% yoy mostly as a result of the appreciation of Lek against the Euro. In the absence of the exchange rate effect, the annual change in the foreign currency credit would be +0.7% (instead of -4.6%) and total credit contraction would be equal to -0.5% (instead of -3.5%). Long term loans and loans for the purchase of real estate combined, represent about 53% of the total amount of outstanding loans. Both types of long term loans have recorded a steady, albeit small annual growth rate over the last three years. The stock of credit to the private sector has been declining steadily over the last 4 years, partly as a result of weak new lending and partly due to the reduction in the stock of nonperforming loans. During the first 9 months of 2018 the stock of loans held by the private sector shrunk by about 5% or ALL 11 billion. Credit to households has continued to increase at an average annual rate of 5-6% and its share to the total stock of loans has jumped to 31% in September 2018, from 25% in December 2014.

[11] Decision "Some amendments in the Regulation "On Capital Adequacy", dated 02.05.2018 on the abrogation of countercyclical measures.

***Households and enterprises***

During H1-2018, the creditor position of households and the debtor position of enterprises decreased slightly. For households, this performance was driven by the faster growth of credit, primarily in lek, than deposits. For enterprises, the faster growth of deposits in all currencies concurred with the contraction of credit. Although households showed added preference for investments in long-term debt securities during the period, their financial wealth in the form of deposit, securities and quotas in funds, decreased. The credit quality for households improved, leading to the decline in the non-performing loans ratio to 7.5%, although for the unhedged credit against the indirect foreign exchange risk, the change was insignificant. Survey results for the financial condition and debt burden of households, show that overall they remain at adequate levels and more concentrated in households with higher income. For the majority of the borrowing households the value of debt servicing account up to 30% of the income level. For enterprises, the credit contraction was present mostly in the euro currency and concentrated in resident enterprises. During the period, the credit quality for enterprises did not show notable changes in the non-performing loans ratio, at 17.1%, but shows a better performance in annual terms. Survey results on the financial condition and debt burden of enterprises show that this burden did not change during the period and is assessed as affordable. For most enterprises, the debt value is assessed at half the capital value, although this indicator for the larger enterprises and those operating in the industry sector tends to be higher. Most borrowing enterprises state that the debt servicing accounts for around 20% of the enterprises' income; but, this indicator rises to around 30% for small enterprises. According to survey results, the households and enterprises credit demand for the short-term period is likely to remain moderate.

***Assessment of risks to banking activity***

The banking sector has prudential capital and liquidity reserves that could accommodate strong shocks triggered by domestic and external adverse macroeconomic developments. The results of the solvency and liquidity stress tests show that the banking sector remains well capitalized and liquid in all major currencies in the short to medium term horizon and is in a position to perform well under the most plausible scenarios (baseline and moderate scenarios). In the adverse scenario of the solvency stress test, only a small number of banks would be under the necessity to increase their capital.

In more details for specific risks, the assessment is as follows:

- Credit risk: Credit quality has continued to improve over the first nine months of 2018 although at a slower pace. The reduction in the stock of nonperforming loans has been accompanied by a faster decrease in the loan loss provisioning levels, and this has resulted in the decline of the provisioning coverage ratio. The ratio of loans covered with collateral has increased due to the increase in the volume of loans covered by collateral other than real estate. The collection and restructuring of nonperforming loans has been facilitated by the stable economic growth and the experience accumulated by banks over the recent years. However, as the volume of loans that are written-off has gradually declined, it has become apparent that banks need to explore other ways of reducing the stock of nonperforming loans and containing the flow of new nonperforming loans. Banks should also assess and provision pro-actively credit exposures in external jurisdictions, which may be subject to adverse macroeconomic conditions. In addition to the diminishing impact of bad loan write offs in the credit quality, overall credit slowdown is likely to put increased pressure on the quality of the credit portfolio in the short to medium term.
- Liquidity risk in the Albanian banking sector is low. The ratios of liquid assets to short term liabilities both in Lek and foreign currency are considerably higher than the minimum regulatory requirements. The level of deposits is twice as high as the volume of outstanding loans. Growth in total deposits is driven by growth in demand deposits and current accounts, whereas time deposits have continued to contract. The majority of current accounts is held by businesses, so growth in total deposits is currently driven by growth in enterprises' current accounts. The current funding structure puts a constraint on the banking sector to finance longer term projects related to

enterprises and households investments, while the structure of the financial market makes it difficult for banks to find longer term funding sources. The current liquidity structure of the enterprises and the structure of funding sources of the banking sector, appear to be putting pressure on both the demand and supply of loans, particularly for investment. The lack of sufficient demand for loan, also appears on the survey that Bank of Albania does with households and enterprises.

- The exposure of the banking sector to market risks remains significant although it has diminished slightly over the first half of 2018. The exposure of the banking sector to direct and indirect exchange rate risk has not changed. The strong changes in the Lek/Euro and Lek/USD exchange rate over the period have affected the Lek counter value of foreign currency loans and deposits but do not seem to have had a visible impact in the financial soundness indicators of the banking sector. The share of foreign currency loans and deposits to the total outstanding amounts have shown stability as has the share of loans unhedged against the exchange rate risk to total foreign currency loans. In view of the implementation of the de-euroization package, BoA and the banking sector have taken measures to enhance transparency and provide information to foreign currency borrowers regarding the risks associated with strong fluctuations in the main exchange rates and interest rates. Exposure of the banking sector to sharp movements in interest rates and to losses associated with them, remains considerable. The direct exposure to interest rate movements, assessed by considering the open balance sheet position between interest-rate sensitive assets and liabilities as a share of the regulatory capital of the banking sector, is limited. However, the indirect exposure assessed by looking at the share of variable-interest rate loans to total loans, is significant. When interest rate spreads are at low historical levels, the impact of a possible correction in interest rates on borrowers' solvency in the medium term would increase. In the current low interest-rate environment, the performance of risk-weighted assets and the evolution of average asset maturity, indicate that the appetite of the banking sector for higher risk investments has not increased.
- The composite indicators that BoA uses to assess the overall health of the financial sector and risks to financial stability (financial stability map, the indices of materialization and accumulation of systemic risks and the financial stress index) indicate that risks to financial stability in the short-to-medium term remain contained. The robust economic growth, the fall in the unemployment rate, the generally stable foreign exchange rate, the increased discipline in the public debt management and the improvement in some indicators of the banking sector performance (mainly capitalization and liquidity) have had a positive impact and support to the financial performance and stability of the financial sector. Main risks are tied to the slowdown in deposit growth, contraction in lending and decreasing net interest margins in the banking sector. When surveyed about their assessment of systemic risks, banks responded that their assessment of the risk level has not changed from the previous year and their expectations, overall, remain positive.

**Changes in regulatory framework**

***Supervision***

Supervision faces a series of challenges ahead due to local and international developments. In 2018, some banks in the domestic market have repositioned themselves creating somewhat a different picture. Two mergers and acquisitions have occurred reducing the number of banks operating in the market, whereas two other banks are expected to change their shareholders. The main driver of such developments is the change in the business strategy of parent banks with EU origin. In any case, the approval process that followed is performed as new banks were to be established and fit and proper test have been done accordingly.

In Albania, the banking system still needs to address the NPL piled up concerns and release its capacity to broadly finance the economy. Reduction of NPL is a main focus through deepening of supervisory actions. A new framework for cooperation between banks for a permanent solution of common borrowers is under consultation with the banking industry. Such initiative for out-of-court settlement agreements is expected to enhance the cooperation between banks and bring them in a common ground against borrowers to avoid asymmetries of information in the decision making process.

Convergence of supervisory practices with EU ones remains a constant effort as significant steps have been made through the ongoing planned changes of Regulatory Capital Regulation, introduction of new regulation for stress-tests and for Liquidity Coverage Ratio, as well as setting capital buffers requirements in compliance with Basel III. Pursuant with the Albanian law on recovery and resolution of banks, approved in end 2016, new regulatory acts on early intervention, on specifying the conditions for group financial support and on bridge bank etc. are currently being drafted.

Full implementation of Pillar 2 from Basel II is under process. The SREP guideline draft is in process internally for determining necessary assessment steps and respective methodologies for its components. Input of important documents such as ICAAP is still key that needs to be further improved in terms of preparation from banks and from supervisory assessment.

Risk based supervision is expected to further be enhanced with the introduction of important key methodologies such as Business Model analysis and Stress-test requirements from banks. All should form a more complete picture of banks assessment as inherent risks will be analysed and a forward-looking view will add robustness to the evaluation and supervisory measures. Corporate governance assessment is to be qualitatively augmented as the supervisory manual is being revised to provide more insight on the assessment of risk control and the appropriateness of its governing bodies.

IFRS implementation efforts are going forward as trainings from specialized institutions have been carried and some analysis of IFRS 9 impact have been performed through a project supported by World Bank. Preparations will be made to enhance the internal capacities to improve the quality of financial reporting from banks, as well as the relationship between the regulators and banks external auditors.

The cooperation with the European Central Bank (ECB) was finalized through a bilateral agreement (MoU) in the field of banking supervision. The content of cooperation agreement between the two institutions has been under discussion for a long time and the MoU was signed in November 2018. The MoU define in general terms how the authorities will cooperate with one another in the performance of their respective tasks and mandate in relation to financial institutions. Meanwhile, the Bank of Albania has participated during last year as observer in some of the supervisory colleges organized for European banking groups, present also in Albania.

***Macroprudential policy***

In line with the recently adopted Macroprudential Policy Strategy, BoA has worked on finalizing methodologies, indicators and databases related to signalling indicators and assessment of systemic risk, as well as the implementation of a number of macroprudential instruments. Over Q3-2018 BoA has started the consultation process with the banking sector and other stakeholders with a draft regulation that introduces several macroprudential capital buffers (conservation, countercyclical, systemic risk and systemic importance buffers). The approval of the framework, which is expected during H1-2019, will allow for the implementation of these buffers over a period 5 years. The overall framework, in line with EU directives, will represent a solid approximation with international standards and guidelines in this area.

***Resolution function of the BoA, as part of financial sector reforms***

*Progress made during 2018*

The approval of Law 133/2016 on "The recovery and resolution of banks, in the Republic of Albania" by the Albanian Parliament on 22 December 2016, which came into force on 11 of July 2017, established the resolution framework in Albania. The resolution law is a transposition of the Bank Recovery and Resolution Directive and mandates Bank of Albania as the Resolution Authority for

banks and branches of foreign banks operating in the country. Bank of Albania exercises the resolution function through the newly established Resolution Department.
During 2018, Bank of Albania has developed the resolution framework mainly on three areas:

- Establishing the Resolution Fund that financially supports the implementation of the resolution instruments
- Drafting sublegal acts pursuant to Law 133/2016 on "The recovery and resolution of banks, in the Republic of Albania".
- Resolution planning and defining resolution strategies.

In this context:

- Following the approval of Regulation no.57/2017 "On the Resolution Fund and the procedures for its administration", Bank of Albania established the Resolution Fund on January 2018. The resolution fund pools together regular (annual) contributions from banks aiming to reach the target level of 0.5% of the banking sector liabilities within 2027. The banking sector paid the first part of the annual contribution to the fund, in January 2018 followed by the second part in April 2018. The Resolution Fund is administered by Albanian Deposit Insurance Agency (ADIA), based on the document "Policy on administration of the Resolution Fund" adopted by Bank of Albania.
- With regard to the sublegal acts, the Supervisory Council of Bank of Albania approved the regulation No. 31, dated 4.4.2018 "On Resolution Plans". The sublegal defines the content of the resolution plans drafted by Bank of Albania as the Resolution Authority, in individual terms for bank and banking group operating in the country. The sublegal act also defines the set of the necessary information and data that banks have to provide to Bank of Albania, to support resolution planning. In this regard, Bank of Albania developed a set of standardised data collection templates and a new detailed guideline to assist banks in providing the respective information and facilitate data collection.
- The Supervisory Council of the Bank of Albania also approved regulation No. 43, dated 6.6.2018 "On the cooperation between Supervision Department and Resolution Department". Pursuant to Law 133/2016, Bank of Albania exercises the supervisory function and resolution function through two different organisational units within the Central Bank, with different reporting and dependence lines. The new sublegal act, defines the manner of cooperation between these two units, the exchange of information and the respective tasks, responsibilities and duties in fulfilling the recovery and resolution law objective.
- Bank of Albania is currently drafting the remaining sublegal acts pursuant to Law 133/2016. By the end of 2018, Bank of Albania will finalise the sublegal act on "Valuation for resolution purposes" that defines the conditions and manner for the selection of the independent valuator for resolution purposes and the appropriate methodologies to carry out the valuations and determine the value of liabilities arising from derivatives. During 2019, Bank of Albania is also expected to finalise the regulatory framework on Minimum Requirement for own funds and Eligible Liabilities – MREL.
- Banks have provided the set of necessary information and data for resolution planning by September 2018. Bank of Albania is in the process of drafting individual resolution plans and resolution strategies. The first step in identifying critical functions performed by banks, as one the main objectives of resolution, is already finalized.
- In its capacity as the Resolution Authority in Albania, Bank of Albania enters into cooperation agreements with other resolution authorities that are responsible for the resolution of cross-border banking groups operating in Albania. Given the significant share of the EU-based banks in the activities of the banking sector in Albania, Bank of Albania signed a Cooperation Arrangement with the Single Resolution Board (SRB). The cooperation agreement provides a platform for the two institutions to cooperate and exchange information with regard to resolution planning and implementation for cross border banking groups.

*Main focus for 2019-2021*

Over the medium term, 2019-2021, the Resolution Function at Bank of Albania shall address the following issues:

- Complete and update the regulatory framework in line with the EU framework on determining the relevant policies related to Minimum Requirement for own funds and Eligible Liabilities for banks and specific by-laws related to individual resolution tools and processes.
- Finalise the resolution plans for all individual banks operating in Albania. Resolution plans aims to facilitate the effective use of resolution tools by Bank of Albania, support the maintenance of critical functions and make bank's resolution feasible.
- Strengthen the resolvability of banks through identifying impediments and taking all measures to remove those impediments.
- Achieving the target level of the "Resolution Fund" through the payment of banks' annual contributions and monitoring its RF investment vis a vis the investment policy in accordance with the provisions of the law and the regulatory acts designed for this purpose.
- Enhance the co-ordination and co-operation with other organizational units within the Bank of Albania, other national institutions and agencies as well as counterpart institutions and international organizations pursuant to the provisions of the Law "On Recovery and Resolution of Banks in the Republic of Albania".

### 2.3. Alternative scenarios and risks

The baseline scenario is estimated to have a relatively high chance to materialize in overall. However, the forecasting of alternative scenarios - assuming that a reasonable part of various risks surrounding the baseline scenario might materialize – is an important component of public finance planning. In order to increase the quality of planning, to have a more efficient management of public funds in any situation that has a certain probability to occur, below are briefly presented two alternative scenarios, specifically a "pessimistic" and an "optimistic" one. Each of the alternative scenarios assumes that a set of negative (in case of a "pessimistic" scenario) or positive risks (in case of an "optimistic" scenario) will materialize. This set of risks assumes deviation from the respective forecasts of baseline scenario for some key macroeconomic indicators, including lending to the economy, the performance of the Eurozone economy with the consecutive effects on the exports of goods and services, on remittances, on various foreign capitals flows as well as exchange rate, interest rate, the pace and the impact of structural policy reforms planned for the medium term period ahead, etc. The overall net effect of all the assumed, negative or positive risks is given as an initial shock in terms of a single variable: real economic growth, for simplicity of the analysis (modelling). Therefore, the alternative scenarios are based on different economic growth assumptions from the baseline for each year 2019 – 2021.

Table 2.3.1: Alternative assumptions in each scenario

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 Est. | 2019 Proj. | 2020 Proj. | 2021 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Real GDP growth (%)** | | | | | | | | | | |
| ***Baseline*** | 1.4 | 1.0 | 1.8 | 2.2 | 3.4 | 3.8 | 4.2 | 4.3 | 4.4 | 4.5 |
| ***Pessimistic*** | | | | | | | | 2.8 | 2.9 | 3.0 |
| ***Optimistic*** | | | | | | | | 5.3 | 5.4 | 5.5 |
| **Nominal GDP (in billion Lek)** | | | | | | | | | | |
| ***Baseline*** | 1,333 | 1,350 | 1,395 | 1,434 | 1,475 | 1,553 | 1,648 | 1,753 | 1,869 | 2,000 |
| ***Pessimistic*** | | | | | | | | 1,728 | 1,816 | 1,915 |
| ***Optimistic*** | | | | | | | | 1,770 | 1,905 | 2,058 |
| **Revenue (% of GDP)** | | | | | | | | | | |
| ***Baseline*** | 24.8 | 24.2 | 26.3 | 26.4 | 27.6 | 27.7 | 28.0 | 27.8 | 27.8 | 27.8 |
| ***Pessimistic*** | | | | | | | | 27.3 | 27.3 | 27.3 |
| ***Optimistic*** | | | | | | | | 27.8 | 27.8 | 27.8 |
| **Overall fiscal balance (in billion Lek)** | | | | | | | | | | |
| ***Note**: The overall fiscal balance in nominal terms for each alternative scenario is targeted to be more (less) in the case of the pessimistic (optimistic) scenario than the baseline nominal balance by 50% of the total revenue difference between the baseline and each respective alternative scenario* | | | | | | | | | | |
| ***Baseline*** | -45.9 | -66.9 | -72.1 | -58.2 | -26.7 | -31.0 | -32.4 | -32.9 | -29.8 | -23.2 |
| ***Pessimistic*** | | | | | | | | -40.7 | -41.8 | -39.8 |
| ***Optimistic*** | | | | | | | | -30.6 | -24.8 | -15.1 |

*Source: Ministry of Finance and Economy*

# 3. FISCAL FRAMEWORK

## 3.1. Policy strategy and medium-term objectives

Fiscal policy in the medium term 2019-2021 will be clearly oriented towards fiscal consolidation, in line with the fiscal rules set out in the Organic Budget Law (see box below on fiscal principles and rules). The fiscal consolidation and reduction of public debt are essential to lower debt-related vulnerabilities that hamper growth and cause macroeconomic instability. To reduce public debt-related vulnerabilities, we have undertaken considerable fiscal adjustment over the past few years. The overall fiscal balance has improved by about 3.2 p.p. of GDP from 2014 to 2018, supported by revenue mobilization, expenditure restraint, and the implementation of several administrative reforms. Since 2016, a positive primary balance (primary surplus) has been recorded, compared to a primary deficit of 2.3% in 2014. Tax revenues are increased considerably in recent years from 22.2% of GDP in 2013 to about 26% of GDP in 2018, driven by tax policy measures and improved tax administration. The reform against informality also helped to increase revenue collection that remains an ongoing priority action. On the expenditure side, substantial savings were realized from reforms in the pension and energy sector, as well as from efficiency gains in public administration. Also, as regard debt management during these years the risks of changing terms have been reduced by diversifying and extending significantly the maturity of public debt.

The consolidating fiscal policy aims to keep the down warding trajectory of public debt as a ratio to GDP started since 2016. Public debt is expected to fall at about 65.5% of GDP in 2019; 63.6% of GDP in 2020 and 59.9% in 2021, which comprises an optimal but still substantial reduction from the peak of 72.7% in 2015. The medium-term indicative target for public debt remains its reduction below 60% in 2021. In terms of public debt *net* of liquid assets of government (cash deposit of government held in the central bank), the reduction will be from 66.6% expected in the end of 2018 to 59.5% in 2021, which comprises a cumulative reduction of about 7 p.p. in three years. To achieve this medium term fiscal policy indicative target on public debt, the baseline fiscal scenario targets a fiscal deficit at the level of 1.9% of GDP in 2019, a level of 1.6% of GDP in 2020, and aims at further reduction to 1.2% by 2021. At the same time, it is constantly targeting a positive and growing primary balance in years 2019-2021, respectively 0.5% of GDP in 2019; 0.9% in 2020; and 1.5 percent in 2021. Also, the current balance, defined here as the difference between public investment and annual deficit, is targeted at high levels and gradually increasing over the medium term. The current balance in the medium term is targeted at the level of 3.3% of GDP in 2019, 3.4% in 2020 and 3.7% in 2021.

At the same time, this fiscal framework accommodates budgetary policies which support economic growth. Public investments of central government in the short and medium term are preserved at an average of 5% of GDP, which is important to fuel aggregate demand in the short run and shift potential growth in the medium and longer term.

Continuation of public financial management reforms are crucial to increase the efficiency of budget spending as well as create space for more productive spending in the medium and long term. We have launched several PFM reforms, some of which have already been finalized, some are close to finalization and we remain fully committed to finalizing them all.

**FISCAL PRINCIPLES AND RULES**

In full compliance with the obligations deriving from the Organic Budget Law (OBL) No. 57/2016, the fiscal framework 2020-2022 materializes the following fiscal principles and rules:

1. *In each annual budget law, original or revised, and in the medium-term budget planning, the ratio of public debt to GDP shall be planned lower than the estimated level of the previous year, until the debt level reaches and stays under the threshold of 45% of GDP.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework 2020-2022 *targets an annual a level of total public debt in percentage of GDP lower than the level of the previous year*.

2. *Nominal value of GDP in ALL which is used to calculate the ratio of public debt to GDP for projected years and for previous year, cannot be higher than the one forecasted or estimated in the IMF's World Economic Outlook report, the latest published in the time when annual budget proposal is submitted for approval to the Assembly. This fact is clearly documented in the explanatory note of the annual budget proposal.*

In accordance with this provision (fiscal rule) of the OBL, the 2020-2022 framework *is based on the following nominal GDP projections, which are not higher than the projections of the World Economic Outlook report* of International Monetary Fund , most recently published on October 2018.

**Forecasted nominal GDP of the IMF and MFE** **(in billion ALL)**

| | 2016 | 2017 | 2018 Fore. | 2019 Fore. | 2020 Fore. | 2021 Fore. |
|---|---|---|---|---|---|---|
| **IMF – World Economic Outlook** | 1,475.3 | 1,553.0 | 1,653.5 | 1,754.4 | 1,869.3 | 2001.5 |
| **MFE** | 1,475.3 | 1,552.9 | 1,647.6 | 1,752.7 | 1,869.2 | 2000.3 |
| **Difference IMF - MFE** (Difference should not be less than zero) | 0 | 0.1 | 5.9 | 1.7 | 0.1 | 1.2 |

3. *Each planned budget year includes a specific contingency of no less than 0.7% of total budget expenditure, to compensate potential risks from fluctuation of exchange rates or interest rates, affecting the debt level.*

In accordance with this provision (fiscal rule) of the OBL, the 2020-2022 framework includes each year in a separate item, labeled "Contingency on interest rate fluctuations, etc. *"a contingency of at least 0.7 percent of total expenditures.*

4. *Revenues from privatization are not part of the budget planning. In case of their collection, they are used not less than 50% for the public debt reduction, and the remaining part for investments*.

In accordance with this provision (fiscal rule) of the OBL, the 2020-2022 framework *does not include revenues from potential privatizations.*

5. *The annual amount of the budget deficit cannot exceed the annual amount of capital expenditure, approved each year in the budget law.*

In accordance with this provision - "golden rule" - the OBL, the annual deficit targets in the 2020-2022 framework *are lower than the planned capital expenditure.* Consequently, the targeted current balance is positive at an average of 3.5 percent of GDP in each programmed year.

---

*1. Link to access the WEO report - https://www.imf.org/en/Publications/WEO/Issues/2018/09/24/world-economic-outlook-october-2018*

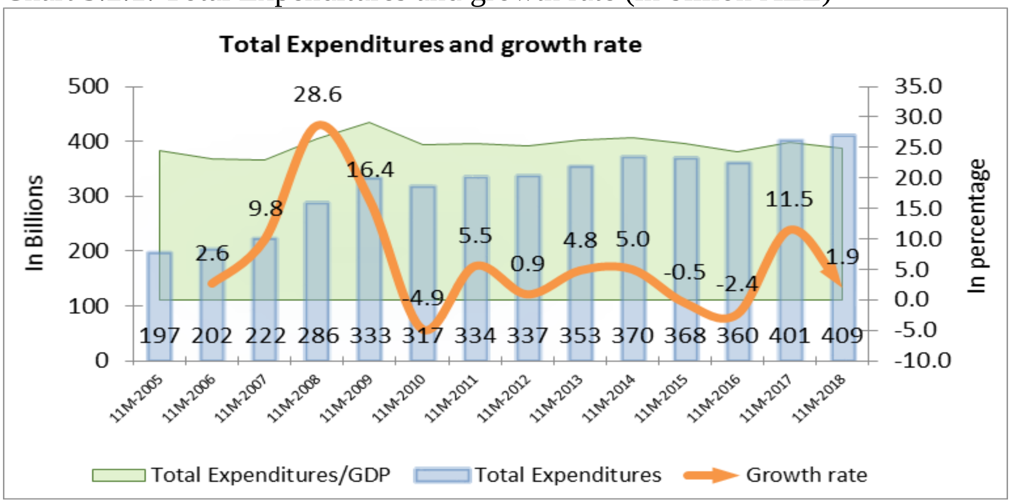
## 3.2. Budget implementation in 2018

### Eleven-month performance of main budget spending indicators

*Total revenues*, for the eleventh month of 2018, reached the level of about ALL 407.4 billion with a realization of 97.2 percent of the period's plan. Compared to the same period of 2017, this item resulted 4.3 percent higher or about ALL 17 billion more. *In annual terms*, total revenues for the eleventh month of 2018 were realized at 87.7 percent of the annual plan according to the Initial Budget and Normative Act no.1, date 26.07.2018 (AN no. 1), and 88.2 percent of the annual plan according to Normative Act no.2, date 19.12.2018 (AN no. 2).

*General Public Expenditures*, during the eleventh month of 2018 reached the level of ALL 408.7 billion, with a realization of 93.5 percent of the period's plan. Compared to the same period of 2017, this item resulted 1.9 percent higher or about ALL 7.7 billion more. *In annual terms*, total expenditures for the eleventh month period of 2018, were realized at 82.2 percent of the annual plan according to the Initial Budget and AN no.1, and 82.7 percent of the annual plan according to AN no. 2. Total Expenditures for the eleventh month period represented 24.81 percent of the Gross Domestic Product (GDP). The following chart shows the stable trend over the years of the total expenditures ratio versus GDP, with an average rate of about 25.4 percent.

Chart 3.2.1: Total Expenditures and growth rate (in billion ALL)




*Source: Ministry of Finance and Economy, 2018*

*Current and capital expenditures* have marked a performance, respectively at 96.8 percent and 78.8 percent of the period's plan. Meanwhile, *in annual terms* they were realized respectively: Current expenditures 86 percent of the annual plan according to the Initial Budget and 85.9 percent according to AN no.1 and AN no. 2, capital expenditures 66.6 percent of the annual plan according to the Initial Budget, 66.3 percent of the annual plan according to AN no. 1 and 68.3 percent of the annual plan according to AN no. 2.

Table 3.2.1: Consolidated fiscal indicators during the 11-month of 2018 (in million ALL)

| Items | Nov-18 | | Difference | | Year 2018 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Plan | Actual | Actual-Plan | in % over Plan | Annual Plan Initial Budget | Annual Plan Normative Act No.1 | Annual Plan Normative Act No.2 | % of annual realization Initial Budget | % of annual realization AN1 | % of annual realization AN2 |
| **Total Revenues** | 419,130 | 407,429 | -11,701 | 97.2% | 464,702 | 464,703 | 461,864 | 87.7% | 87.7% | 88.2% |
| **Total Expenditures** | 436,899 | 408,700 | -28,199 | 93.5% | 497,069 | 497,069 | 494,231 | 82.2% | 82.2% | 82.7% |
| *Current Expenditures* | *362,573* | *351,008* | *-11,565* | *96.8%* | *407,981* | *408,778* | *408,530* | *86.0%* | *85.9%* | *85.9%* |
| *Capital Expenditures* | *72,978* | *57,512* | *-15,466* | *78.8%* | *86,388* | *86,691* | *84,201* | *66.6%* | *66.3%* | *68.3%* |
| **Deficit/Surplus** | -17,770 | -1,271 | 16,499 | 7.2% | -32,367 | -32,367 | -32,367 | 3.9% | 3.9% | 3.9% |

*Source: Ministry of Finance and Economy, 2018*

Table 3.2.2: Consolidated fiscal indicators during the 11-month of 2017 and 2018 (in million ALL)

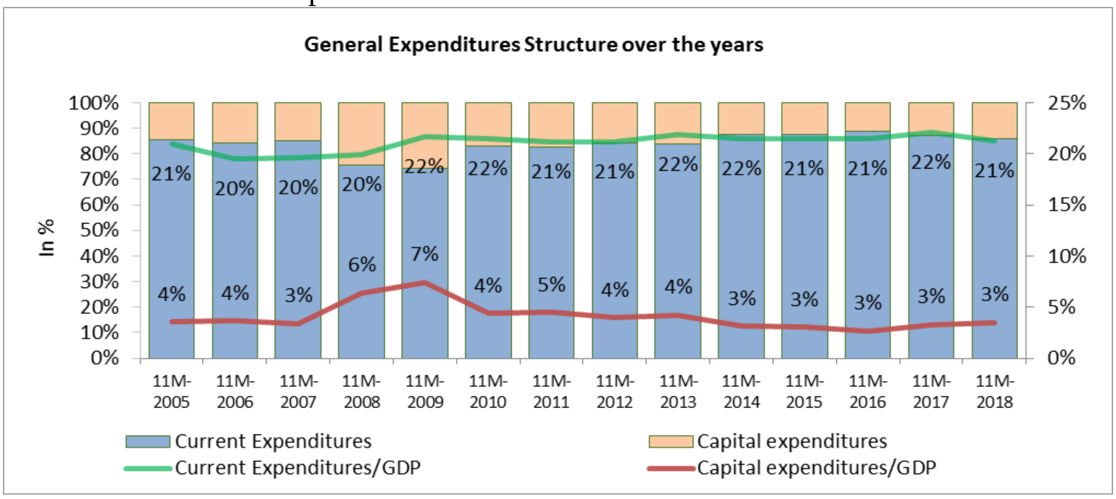
| Items | Actual November 2017 | Plan 2018 | Actual 2018 | Difference | | Difference | |
|---|---|---|---|---|---|---|---|
| | | | | Actual 2018 Plan 2018 | in % over Plan 2018 | Actual 2018 Actual 2017 | in % over Actual 2017 |
| **Total Revenues** | 390,445 | 419,130 | 407,429 | -11,701 | 97.2% | 16,984 | 104.3% |
| **Total Expenditures** | 400,977 | 436,899 | 408,700 | -28,199 | 93.5% | 7,723 | 101.9% |
| *Current Expenditures* | *343,125* | *362,573* | *351,008* | *-11,565* | *96.8%* | *7,883* | *102.3%* |
| *Capital Expenditures* | *51,366* | *72,978* | *57,512* | *-15,466* | *78.8%* | *6,146* | *112.0%* |
| **Deficit/Surplus** | -10,532 | -17,770 | -1,271 | 16,499 | 7.2% | 9,261 | 12.1% |

*Source: Ministry of Finance and Economy, 2018*

*Current expenditures* for the eleventh month of 2018 reached the level of about ALL 351 billion, while compared to the same period of the previous year, this item resulted 2.3 percent higher or about ALL 7.9 billion more. Current expenditures for the eleventh month of 2018 represented 85.9 percent of the total expenditures. Compared to GDP, current expenditure represented 21 percent. The following chart shows the stable trend over the years of the current expenditures ratio versus GDP, with an average rate of 21 percent.

*Capital expenditures* for the eleventh month of 2018 represent a realization of about ALL 57.5 billion. Compared to the same period of 2017, this item is 12 percent higher or about ALL 6.15 billion more. Capital expenditures for the eleventh month of 2018 represented 14.1 percent of the total expenditures. Compared to GDP, capital expenditures represented 3 percent. The following chart shows the stable trend of the capital expenditures ratio over the years versus GDP, with an average rate of 4 percent.

Chart 3.2.2: General Expenditure Structure and GDP ratio

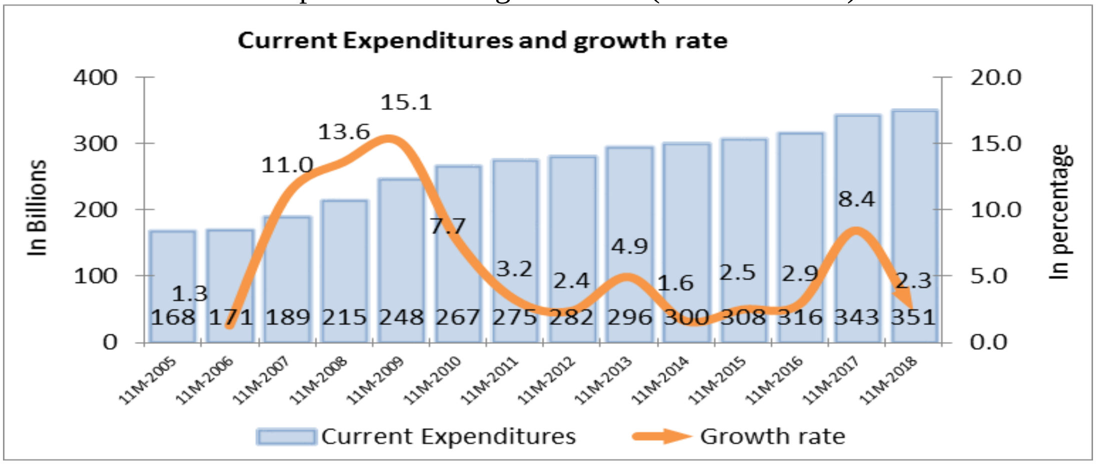



*Source: Ministry of Finance and Economy, 2018*

*The deficit level* in the eleventh month of 2018 resulted in about ALL 1.27 billion, from about ALL 17.8 billion planned, showing a significant improvement compared to the 11-month plan, where the deficit level has resulted about ALL 16.5 billion less.

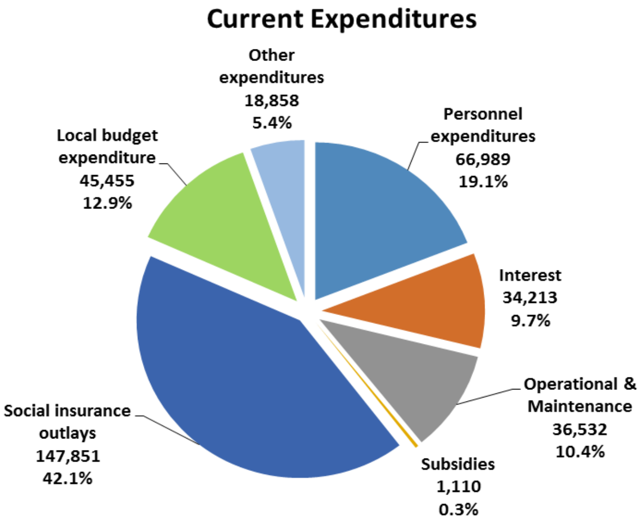
*Current expenditures*, in relation to the eleventh month plan of this year, represented a realization of 96.8 percent, resulting in about ALL 351 billion. The main items affecting their level of implementation were respectively: local budget expenditures by 105.9 percent, interest expenditures by 99.8 percent and special funds expenditures by 97 percent.

Chart 3.2.3: Current expenditures and growth rate (in billion ALL)




*Source: Ministry of Finance and Economy, 2018*

Chart 3.2.4: Current Expenditures Structure

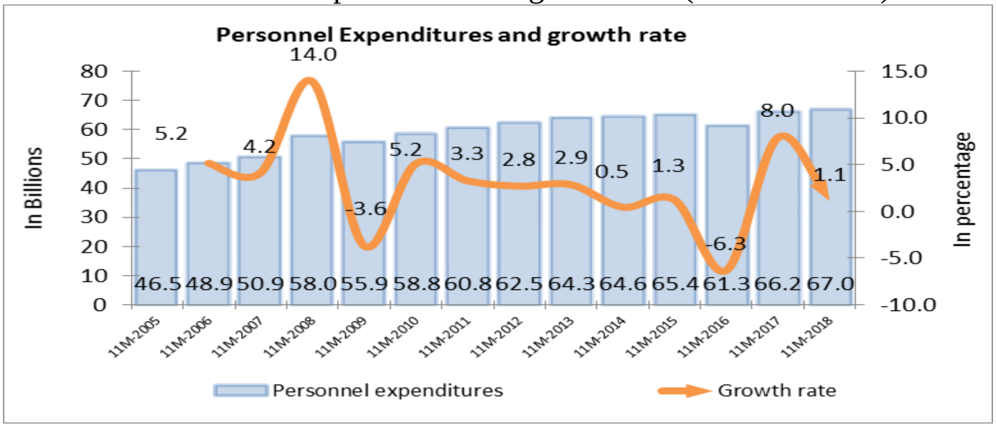



*Source: Ministry of Finance and Economy, 2018*

*Current expenditures* for the eleventh month of 2018 resulted at about ALL 351 billion, where the main part consists of social insurance expenditures, with 42.1 percent of total current expenditures.

*Personnel expenditures*, during November 2018, represented 19.1 percent of the total current expenditures. Their actual level of about ALL 67 billion, realizes the forecasted level for this item in the eleventh month period, at 93.6 percent. Compared to the same period of 2017, this item is 1.1 percent higher or ALL 761 million more. In relation to the annual plan, personnel expenditures were realized 84.9 percent of the annual plan according to the Initial Budget, 86 percent of the annual plan according to AN no.1, and 88.2 percent of the annual plan according to AN no. 2.

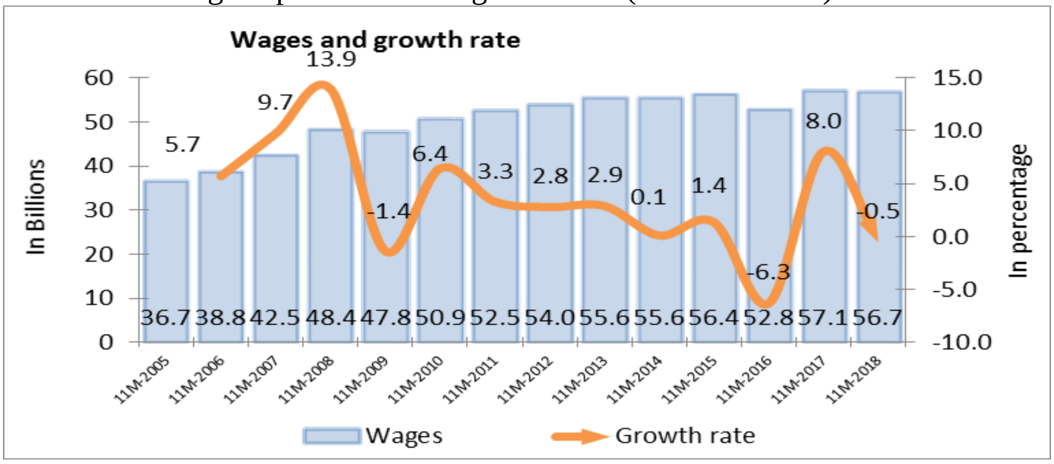
Chart 3.2.5: Personnel Expenditures and growth rate (in billion ALL)




*Source: Ministry of Finance and Economy, 2018*

*Expenditures on Wages* at the end of November 2018 were realized at about ALL 56.7 billion, being 0.5 percent lower than the same period in 2017, or ALL 306 million less. Meanwhile, the expenditures for social security were realized 1.8 percent higher than the previous year or ALL 168 million more.

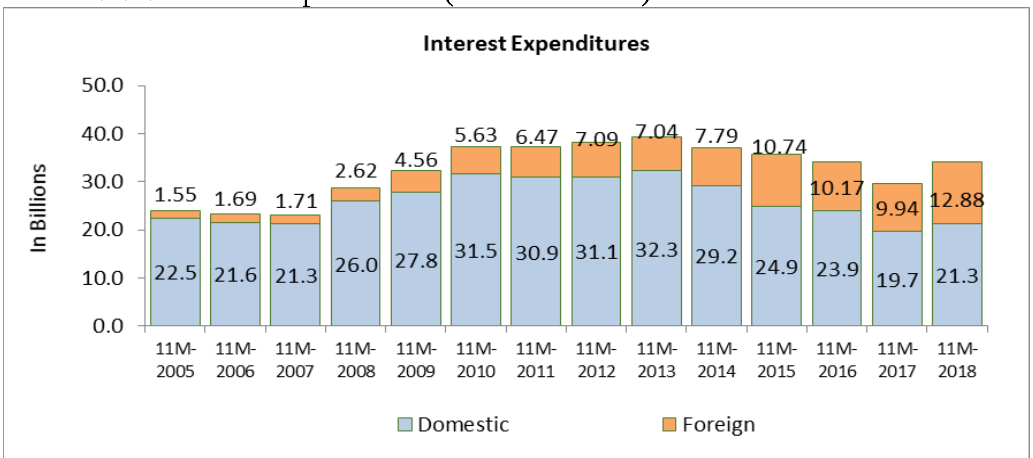
Chart 3.2.6: Wage expenditures and growth rate (in billion ALL)




*Source: Ministry of Finance and Economy, 2018*

*Interest expenditures*, during the eleventh month period of 2018 represented 9.75 percent of current expenditures. Their actual level resulted at 99.8 percent of the period's plan. Compared to the annual plan, according to the Initial Budget and AN no.1, at the eleventh month level these expenditures were realized at 82.4 percent, and 83.4 percent according to AN no. 2. Meanwhile, compared to the same period of 2017, this item resulted 15.5 percent higher, or about ALL 4.6 billion more.

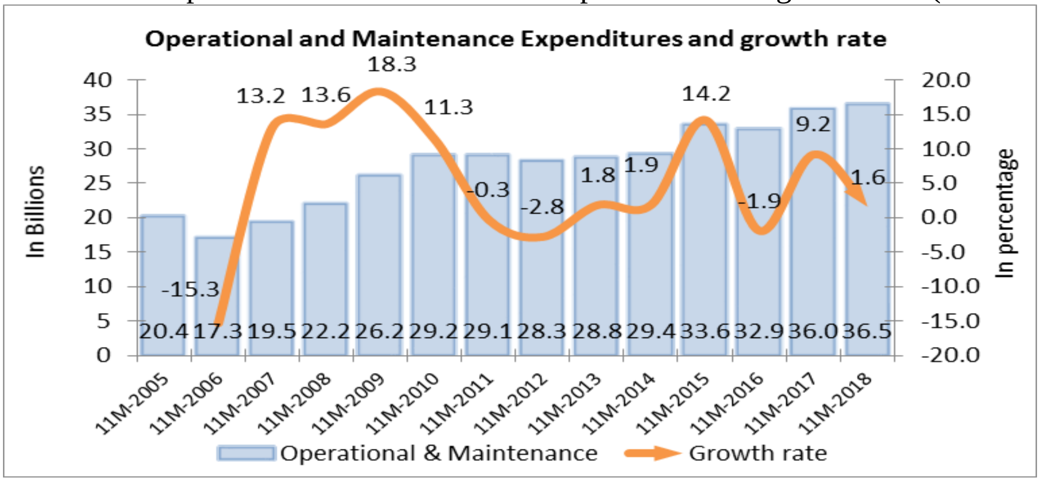
Chart 3.2.7: Interest Expenditures (in billion ALL)



*Source: Ministry of Finance and Economy, 2018*

*Operational and Maintenance expenditures,* during the eleventh month period of 2018, registered an actual level of about ALL 36.5 billion, or 91.4 percent of the period's plan. *In annual terms*, operational and maintenance expenditures were realized at 80.3 percent according to the Initial Budget, 78.9 percent according to AN no. 1, and 79.1 percent according to AN no. 2. Compared to the same period of 2017, this item resulted 1.6 percent higher, or ALL 573 million more.

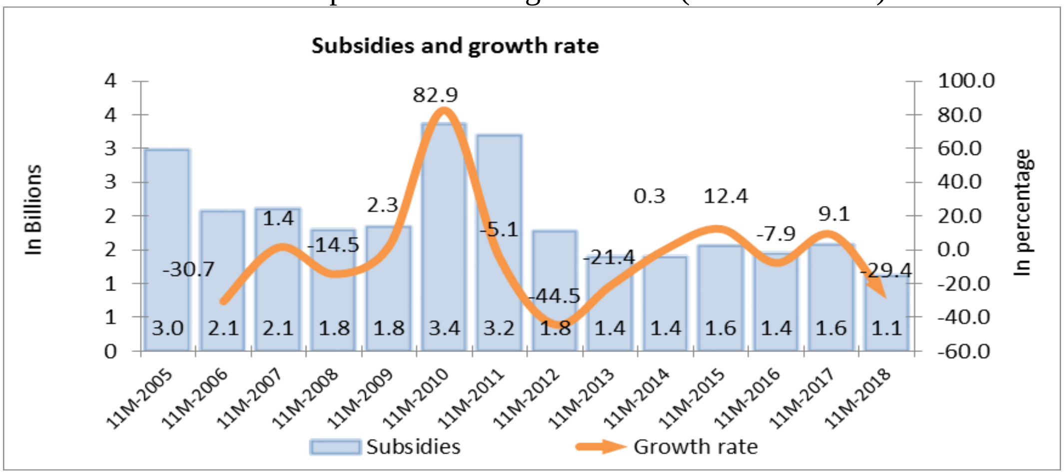
Chart 3.2.8: Operational and Maintenance expenditures and growth rate (in billion ALL)




*Source: Ministry of Finance and Economy, 2018*

*Subsidy Expenditures,* for the eleventh month period of 2018, amounted at about ALL 1.1 billion, with a realization of 66.9 percent or ALL 549 million less than the period's plan. In relation to the annual plan according to the Initial Budget and AN no.1, this item is realized at 53.1 percent, and according to AN no. 2 this item is realized 59 percent, while for the same period of 2017 subsidy expenditures resulted 29.4 percent lower or ALL 462 million less. This non-realization comes mainly as a result of the break-down at the beginning of December, of ALL 590 million "for performance" subsidies, dedicated to water supply and sewerage enterprises.

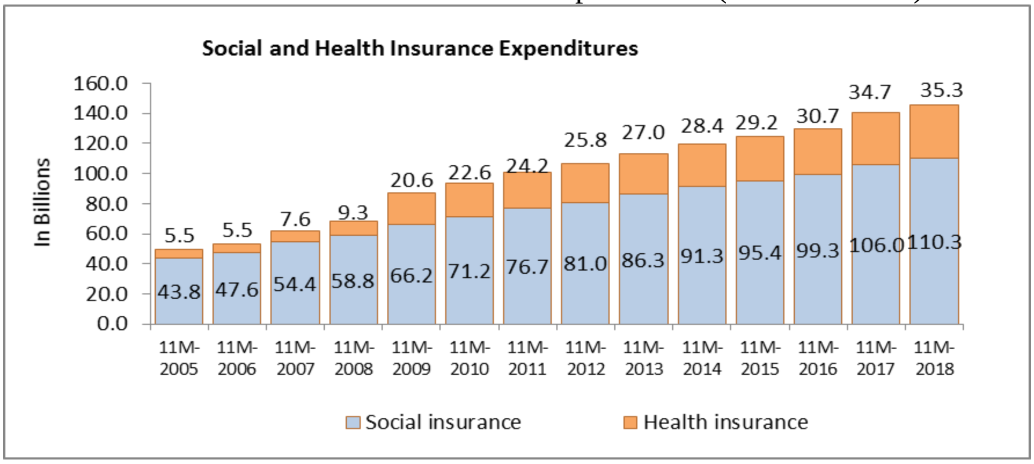
Chart 3.2.9: Subsidies Expenditures and growth rate (in billion ALL)




*Source: Ministry of Finance and Economy, 2018*

*Expenditures for Special Funds* for the eleventh month period of 2018 resulted at about ALL 147.9 billion, with a realization of 97 percent of the period's plan. Respectively, social insurance expenditures were realized at about ALL 110.3 billion, health insurance expenditures to about ALL 35.3 billion and expenditures for owners' compensation at about ALL 2.3 billion. Compared to the same period of 2017, social insurance expenditures resulted about ALL 4.3 billion more, health insurance expenditures ALL 568 million more and expenditures for owner's compensation at about ALL 1.66 billion less.

Chart 3.2.10: Social and Health insurance expenditures (in billion ALL)



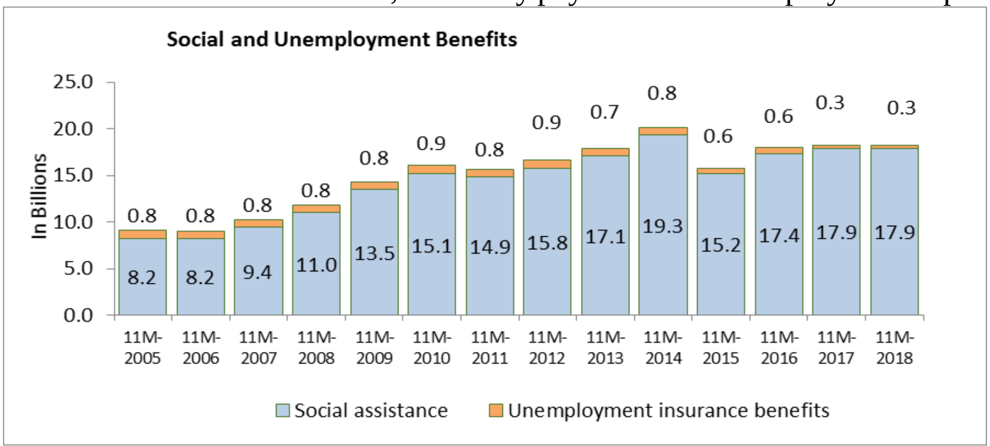

*Source: Ministry of Finance and Economy, 2018*

*Unemployment Expenditures* for the eleventh month of 2018 registered a level of 71.1 percent of the period's plan or 37.8 percent of the annual plan according to the Initial Budget, 60.5 percent of the annual plan according to AN no. 1 and 86.4 percent according to AN no. 2. Compared to the same period of 2017, expenditures for this item resulted in a decrease of about 5.3 percent or ALL 17 million less in nominal terms.

*Expenditures for Social Assistance and Disability Payment* (PAK) in the eleventh month of 2018 were realized at 96.7 percent or ALL 602 million less than the plan of the period. In relation to the annual plan according to the Initial Budget, AN no.1 and AN no. 2, they are realized at 87.2 percent. Compared to the same period of 2017, expenditures for this item resulted in a decrease of ALL 2 million less, in nominal terms.

*Expenditures for compensation for ex-political prisoners* in the eleventh month period of 2018 were realized at 81.6 percent or ALL 153 million less than the plan of the period's plan. In relation to the annual plan according to the Initial Budget they are realized at 33.9 percent, while compared to the annual plan according to AN no. 1 and AN no. 2 they are realized at 67.7 percent respectively. Compared to the same period of 2017, expenditures for this item resulted in a decrease of 59.9 percent or about ALL 1 billion less, in nominal terms. This reflects new changes in the respective legal basis, which were approved during the second half of 2018 and hence slowed the execution of funds for 2018.

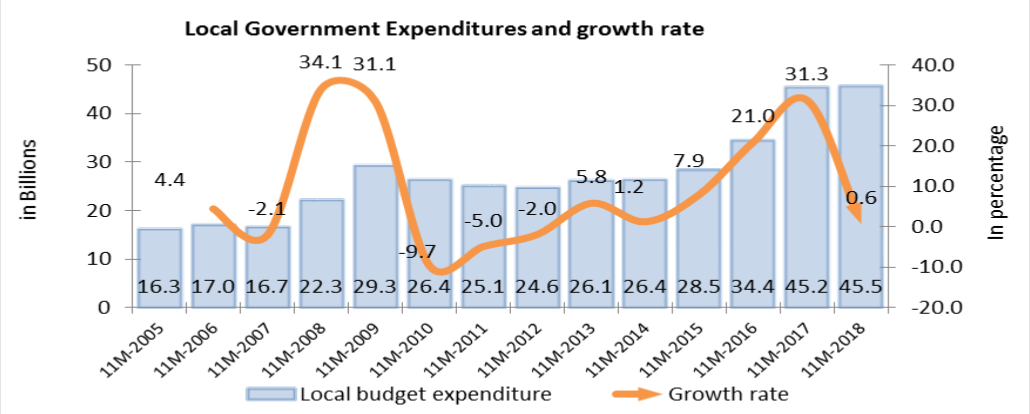
Chart 3.2.11: Social assistance, Disability payment and Unemployment expenditures (in billion ALL)



*Source: Ministry of Finance and Economy, 2018*

*Expenditures for Local Government*, during the eleventh month period of 2018 constituted about 13 percent of current expenditures. Against the same period of 2017, this level resulted ALL 262 million higher or 0.6 percent more. The level of Local Government expenditures for the eleventh month period, reached the level of about ALL 45.5 billion.

Chart 3.2.12: Local Government expenditures and growth rate (in billion ALL)

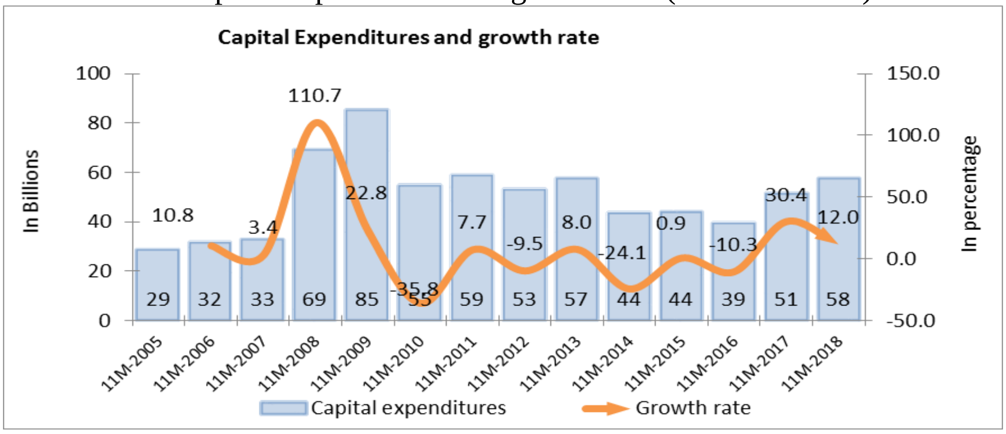



*Source: Ministry of Finance and Economy, 2018*

*Capital expenditures***,** following the analysis of the performance of public investments, for the eleventh month of 2018, are realized at about ALL 57.5 billion or 78.8 percent in relation to the funds planned for this period. Respectively, domestic investment projects were realized at about ALL 35.3 billion or 76.4 percent of the period's plan, while those with foreign financing amounted to about ALL 21.6 billion or 82.5 percent of the period's plan.

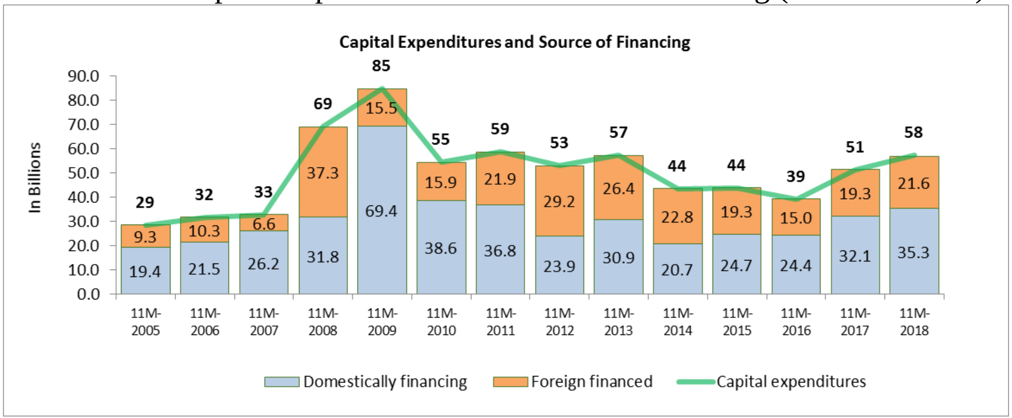
*Compared to the annual plan*, for the eleventh month of 2018, has been ascertained a total realization of public investments of 66.6 percent according to the Initial Budget, 66.3 percent of the annual plan according to AN no. 1 and 68.3 percent of the annual plan according to AN no. 2. Domestic investment is realized at 64 percent of the annual plan according to the Initial Budget, 63.7 percent of the annual plan according to AN no. 1 and 66.7 percent of the annual plan according to AN no. 2. Foreign financing is realized at 70.9 percent of the annual plan according to the Initial Budget and 70.7 percent of the annual plan according to AN no. 1 and AN no. 2.

Chart 3.2.13: Capital Expenditures and growth rate (in billion ALL)




*Source: Ministry of Finance and Economy, 2018*

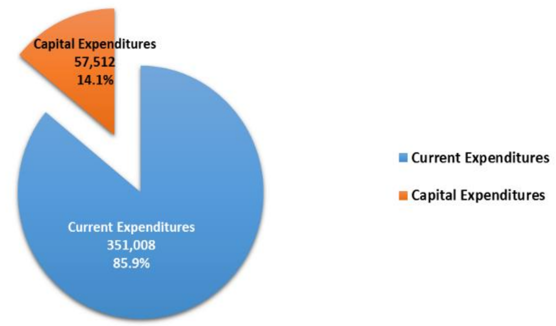
Chart 3.2.14: Capital Expenditures and Source of Financing (in billion ALL)




*Source: Ministry of Finance and Economy, 2018*

The chart below shows the actual allocation of public expenditures for the eleventh month period of 2018. Current expenditures for this period constitute the main part of total actual expenditures or 85.9 percent of them. Meanwhile, capital expenditures constitute the other 14.1 percent.

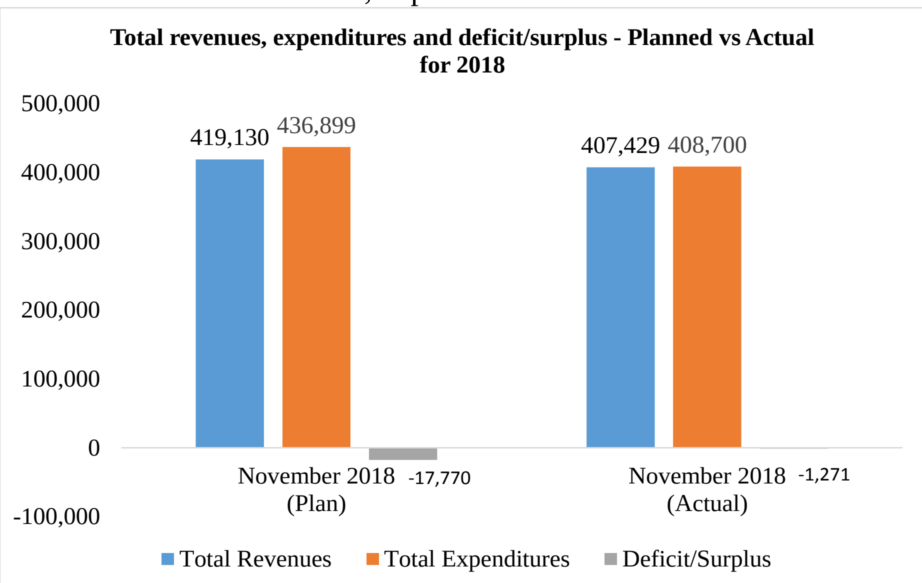
Chart 3.2.15: Capital and Current Expenditures (in million ALL)




*Source: Ministry of Finance and Economy, 2018*

As evidenced by the table of consolidated fiscal indicators, the realization of total expenditures was ALL 408.7 billion or 93.5 percent against the period's plan. This situation is associated with a budget deficit of about ALL 1.27 billion. The chart below shows the positive trends of the main budget indicators.

Chart 3.2.16: Total revenues, expenditures and deficit - Planned vs. Actual 2018 (in million ALL)




*Source: Ministry of Finance and Economy, 2018*

*Total revenues* collected for the period January-November 2018 was about ALL 407.4 billion, or 97.2 percent against the period's plan, marking an increase of 4.3 percent or ALL 17 billion more than the previous year figures. Revenues from grants reached ALL 5.8 billion, or 60 percent of the period's plan and ALL 2.6 billion less than the same period of the previews year.

Revenues collected from General Department of Customs (GDC) and General Department of Tax (GDT), including social contributions collected from GDT were ALL 358.3 billion, with a realisation of 98.3 percent of the plan and 4.7 percent or ALL 16.2 billion more than the same period of the last year. Compared with the last year, these revenues marked a significant improvement in revenue performance, as a result of: (i) intensive efforts to reduce the informal economy (ii) better administration in GDC and GDT during year 2018; and (iii) increase of income tax compliance through self-assessment.

Table 3.2.3 Total Revenues from Tax & Custom Revenues

| GDT and GDC | Actual 11-M 2018 | Official State Budget 11-M 2018 | Actual /Plan | +/- % |
|---|---|---|---|---|
| Value added tax | 130,835 | 133,458 | -2,623 | -2.0% |
| Income tax | 30,173 | 30,076 | 97 | 0.3% |
| Excise | 40,804 | 44,570 | -3,766 | -8.4% |
| Personal income tax | 33,700 | 33,764 | -64 | -0.2% |
| National taxes and others | 35,435 | 35,379 | 56 | 0.2% |
| Custom duty | 5,636 | 6,278 | -642 | -10.2% |
| **Total "Taxes and Customs"** | **276,583** | **283,525** | **-6,942** | **-2.4%** |
| Contributions from GDT | 81,765 | 81,193 | 572 | 0.7% |
| **Total** | **358,348** | **364,718** | **-6,370** | **-1.7%** |

*Source: Ministry of Finance and Economy, 2018*

The main factors that have affected the eleven-month performance versus the plan are:
- The impact of a falling (devaluation) exchange rate USD and EUR against the domestic currency, which had significant adverse effects on the reduction of VAT revenue from imports for all categories of goods.
- Decline in cigarette imports, which reduced customs revenues by ALL 940 million, as compared to the same period last year.

Revenues from General Department of Customs reached ALL 145.8 billion, with a realisation of 95.5 percent of the plan. Compared to the same period of 2017, there is a surplus for this period of 2 percent, or ALL 2.2 billion.

Table 3.2.4: Revenues collected by Custom Administration

| GDC | Actual 11-M 2018 | Official State Budget 11-M 2018 | Actual/Plan | +/- % |
|---|---|---|---|---|
| V.A.T on imports | 96,890 | 99,093 | -2,203 | -2.2% |
| Excise | 40,804 | 44,570 | -3766 | -8.4% |
| Custom Duty | 5,636 | 6,278 | -642 | -10.2% |
| Royalty | 2,482 | 2,727 | -245 | -9.0% |
| **Total** | **145,812** | **152,668** | **-6,856** | **-4.5%** |

*Source: Ministry of Finance and Economy, 2018*

Revenues from Value Added Tax on imports were ALL 97 billion, with a realisation of 97.8 percent of the plan and increased by ALL 2.7 billion (2.9 percent) in comparison with the same period of the last year. Value Added Tax (VAT) performance on imports was affected by several factors, such as:

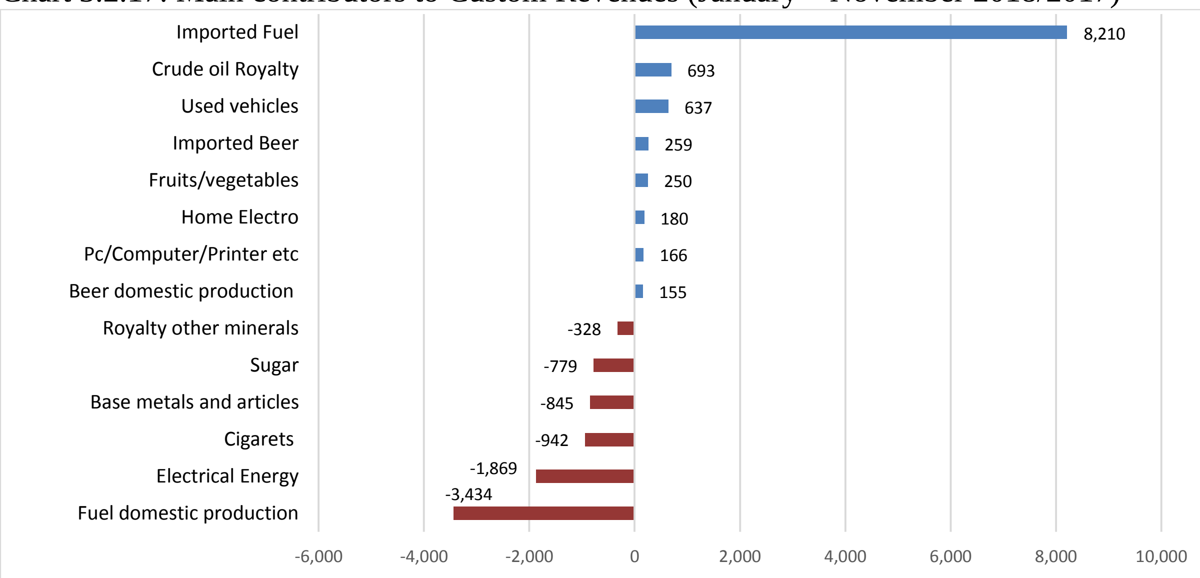
- The depreciation of the USD and EUR currencies against the domestic currency, 10.2 percent and 4.4 percent respectively, had significant adverse effects on the reduction of VAT revenue from imports for all categories of goods.
- Decline in import of electricity as a result of domestic production growth and discipline of the consumer about their electricity consumption.
- Decrease in revenues from the import of TAP Project equipment as a result of the completion of the import of pipes and other equipment.

Revenues from excise tax were ALL 40.8 billion, with a realisation of 91.5 percent of the plan. The excise performance for the January-November period was effected by several factors:

- Decline in the imported cigarette volume due to a decrease in consumption. During the 11-month period 2018 the imported volume was 223 tons or 8 percent less compared to the same period of the last year.
- Positive performance as a result of quantity increase was marked by: the import and domestic production of fuel +6%; the import and domestic production of beer by + 0.5 percent; import of smoked tobacco by +14 percent, coffee imports by +7 percent, as well as increase in the declaration of domestic tobacco production, from 11 tons to 20 tons declared in the period January-November 2018.

Revenues performance from Mineral Royalty during January–November 2018 was ALL 2.5 billion with a realisation of 91 percent of the plan, marking an increase of 17.5 percent or ALL 370 million ALL more than the same period of the last year. Compared with the last year, royalty revenues from crude oil have increased as a result of increased export volume and increased prices of crude oil in international markets. Royalty revenues for crude oil increased by ALL 298 million as a result of increased exported volume by about 103 thousand tons and increased by ALL 395 million as a result of the increase of the crude oil price in international markets. Unit rent increased from ALL 2.89 per kg to ALL 3.62 per kg compared to the previous year. Meanwhile, the exported minerals fell by ALL 328 million due to the decline in exported quantities and due to the decline in the price of minerals in international markets, compared to the same period last year.
Revenues from customs duty were ALL 5.6 billion ALL, with a realisation of 90 percent of the plan.

Chart 3.2.17: Main contributors to Custom Revenues (January – November 2018/2017)




*Source: Ministry of Finance and Economy, 2018*

Revenues collected from General Department of Tax (including social contributions) for the period January-November 2018 were ALL 212.5 billion, with a realisation of 100.2% of the plan and 7.1 percent or ALL 14 billion more than the same period of the previous year. The following table shows detailed data regarding the tax performance:

Table 3.2.5: Tax Administration revenues performance

| GDT | Actual 11-M 2018 | Official State Budget 11 M 2018 | Actual/Plan | +/- % |
|---|---|---|---|---|
| Domestic V.A.T | 33,945 | 34,365 | -420 | -1.2% |
| Profit Tax | 30,173 | 30,076 | 97 | 0.3% |
| Personal Income Tax | 33,700 | 33,764 | -64 | -0.2% |
| National Tax | 32,953 | 32,652 | 301 | 0.9% |
| **Total** | **130,771** | **130,857** | **-86** | **-0.1%** |
| Contributions collected by DGT | 81,765 | 81,193 | 572 | 0.7% |
| **Total GDT (contributions)** | **212,536** | **212,050** | **486** | **0.2%** |

*Source: Ministry of Finance and Economy, 2018*

Revenues from domestic VAT were ALL 34 billion, with a realisation of 98.8 percent against the plan and ALL 2.2 billion (7%) more than 11-months of 2017. In the period January-November 2018, the amount reimbursed was ALL 12.7 billion, about 2 percent or ALL 244 million more than the 11-month of 2017. The positive performance in domestic VAT revenues resulted from domestic electricity production and the impact of quantity increase of fuel produced in the country, during the second half of the year. Also the income from the tourism sector has increased.

Chart 3.2.18: VAT performance during the years (11-months)/million ALL

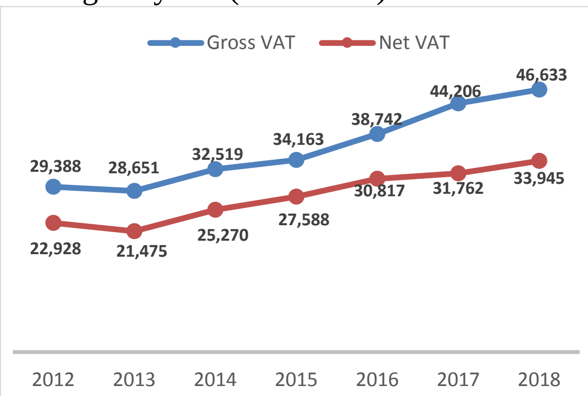
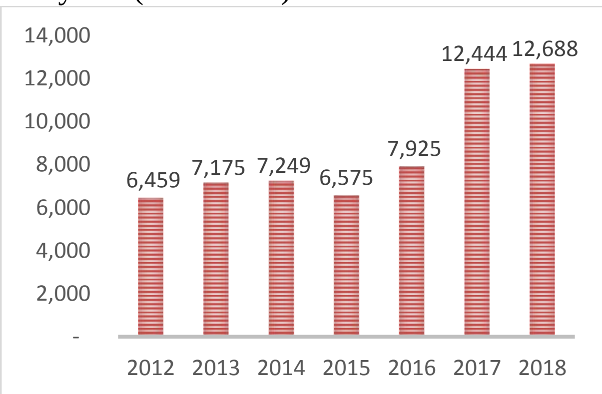


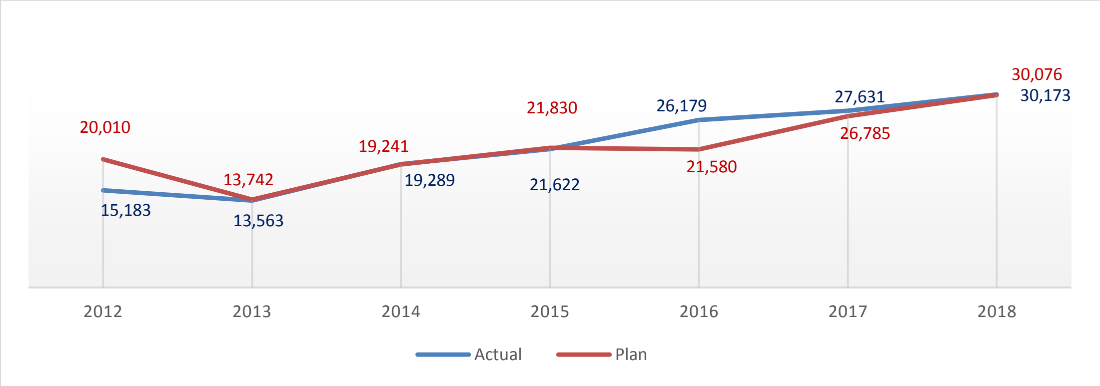

Figure 3.2.19: Vat refunds during the years (11-months)/million ALL




*Source: Ministry of Finance and Economy, 2018*

Revenues from Profit Tax were realized at the amount of ALL 30.2 billion with a realization of 100.3 percent of the plan and they marked an increase of 9.2 percent or ALL 2.5 billion more than the same period of the last year.

Chart 3.2.20: Profit tax performance during the years for 11 months' period (in million ALL)

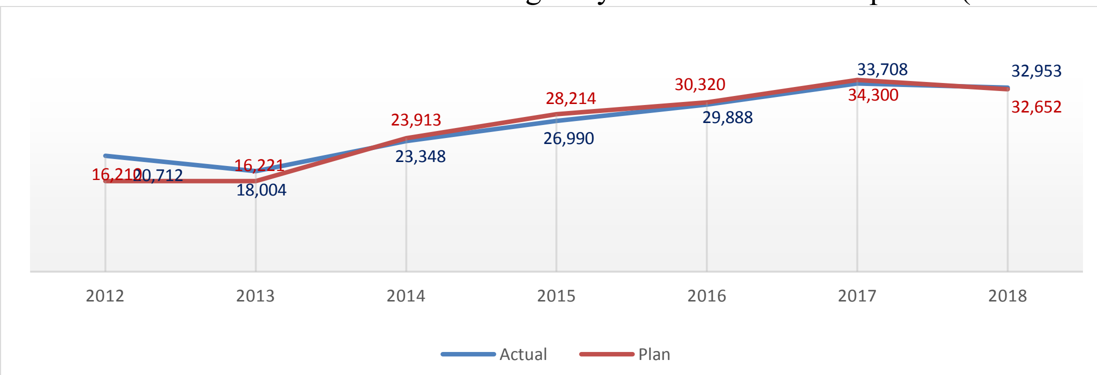



*Source: Ministry of Finance and Economy, 2018*

Revenues from Personal Income Tax were realized at ALL 33.7 billion, with a realisation of 99.8 percent of the plan and increasing by 14.2 percent or ALL 4.2 billion compared to the 11-month period of 2017. Revenues from the employees of the public and private sector have increased, due to the increased number of employees and salary level. There is also an increase in dividend tax and personal income tax.

Revenues from national taxes, for the January-November period, were ALL 33 billion, with a realization of 100.9 percent of the plan.

Chart 3.2.2: National Tax revenues during the years for 11 months' period (in million ALL)




*Source: Ministry of Finance and Economy, 2018*

Revenues from contributions collected by GDC reached the amount of ALL 81.8 billion, marking an increase of 7.7 percent or ALL 5.8 billion compared to the 11 months of 2017 and 0.7 percent or ALL 571 million more than the plan. The high performance and solid growth derived mainly due to positive economic situation and the increase of the number of employees. On the other hand, the anti-informal action has given noticeable effects to the formalization of the labour market.

### 3.3. Medium-term budgetary outlook

Tax revenue forecast for 2019, has considered all relevant factors affecting the budget, including the effect of economic growth, prudent fiscal policies and compliance. New fiscal policies and the effects of the fight against informality, united with anti-circumvention measures aimed to increase the level of taxpayers' voluntary reconciliation with the law.

Revenue programming for 2019 supports the goals of the Ministry of Finance and Economy for further fiscal consolidation, reduction of budget deficit and public debt. This program is based on improving fiscal administration and minimizing informality in the economy, thus supporting sustainable economic growth, and increasing output and exports.

The revenue forecast methodology is based on contemporary programming models, suggested and applied by the International Monetary Fund, and including detailed analysis of the factors which affect each tax. The basic models used are:
- Macroeconomic Forecast.
- Model based on the analysis of the 60-major imported product groups and on the Time Series Analysis.
- Measuring and evaluating the effects based on macroeconomic indicators by analyzing the effect on revenue change for a percentage of GDP change ("Buoyancy" and "Effective Tax Rate").

Macroeconomic factors regarding the 2019 forecast are combined with key indicators that affect specific taxes. Quantities and prices of major imported goods and domestic production (which covers 90% of the total revenues) are analysed and assessed as follow:
- Nominal increase in GDP;
- Expected monetary exchange rate of both main currencies USD and EUR with ALL;
- Prices on stock market that affect revenues from VAT and Royalties;
- Expected quantities on import and production;
- Increased excise revenues for fuels, cigarettes, drinks etc., as a result of the expected increase in their quantity, in line with consumption. It is programmed to be imported +200 tons or 6.9 percent more cigarettes compared to the 2018 expected realization;
- It is forecast a 4 percent increase in fuel imports based on the performance of 2018, which is in line with economic growth and market needs;
- Crude oil price increase by about 28% compared to August 2018, according to forecasts in the EIA- "U.S Energy Information Administration";
- Increase in revenues from VAT on import and domestic VAT, connected with the programming of funds needed for timely reimbursement of taxpayers;
- Increased in profit tax revenues, which reflects an increase in the declaration and turnover of economic operators.

Revenues from GDC and GDT, including social and health contributions, for 2019 are estimated to be ALL 423.5 billion, or ALL 27 billion (6.8%) more than the preliminary 2018, while revenues from GDT and GDC are estimated to be ALL 325.6 billion or ALL 20.5 billion (6.7%) more than the fiscal year 2018.

Table 3.3.1: Total Revenues from Tax & Custom Administration

in million ALL

| GDC & GDT | Actual 2017 | Plan 2018 | Preliminary 2018 | Difference Preliminary 2018 – Plan 2018 | Official Budget 2019 | Difference Budget 2019 – Preliminary 2018 | Budget 2019/ Preliminary 2018 (in %) |
|---|---|---|---|---|---|---|---|
| V.A.T | 139,541 | 148,134 | 143,800 | -4,334 | 153,314 | 9,514 | 6.6% |
| Profit Tax | 31,645 | 33,823 | 31,300 | -2,523 | 33,500 | 2,200 | 7.0% |
| Excise | 45,105 | 49,000 | 45,500 | -3,500 | 48,300 | 2,800 | 6.2% |
| Personal Income Tax | 32,102 | 36,800 | 37,400 | 600 | 43,400 | 6,000 | 16.0% |
| National Tax | 38,502 | 38,340 | 40,100 | 1,760 | 39,700 | -400 | -1.0% |
| Custom Duty | 6,492 | 7,000 | 7,000 | 0 | 7,390 | 390 | 5.6% |
| **Total** | **293,387** | **313,097** | **305,100** | **-7,997** | **325,604** | **20,504** | **6.7%** |
| Health/Social Contributions | 85,601 | 91,062 | 91,500 | 438 | 97,871 | 6,371 | 7.0% |
| **Total** | **378,988** | **404,159** | **396,600** | **-7,559** | **423,475** | **26,875** | **6.8%** |

*Source: Ministry of Finance and Economy, 2018*

Customs revenues are projected based on the analysis of the historical trend of 60 key product groups over a four-year period. This forecast is corrected by the effects of other external factors in each tax. The same procedure has been followed for tax revenues, based on the statistical model of expected revenue projection as well as the exogenous factors influencing each tax.

External factors to take into consideration which influence the revenue growth for 2019 are:

*Macroeconomic framework*
Nominal growth of GDP is applied by analysing this effect in an integrated method with other factors to any tax in particular, in relation to historical data and projections of prices on international markets, to taxes ad valorem as VAT, Royalties and Custom Duty.
In the forecast are included, the following factors:
- Nominal GDP growth.
- The average exchange rate Euro - ALL and USD-ALL.
- Brent prices of crude oil and other minerals.

*The effects of fiscal policy*
- The reduction of the dividend rate from 15% to 8%, is estimated to have a positive impact on the budget revenues of 2019 with about ALL 4.5 billion, this due to the incentive provision for the implementation of this reduced rate also for retained earnings, but accumulated or capitalized in the past years.
- It is proposed to reduce the fiscal burden on employees, increasing the revenue gap, from 130,000 ALL/ month to 150,000 ALL/month, taxed at the rate of 13%. Through this measure, the tax burden is reduced for about 15,400 employees. This change is expected to have an effect on the state budget of ALL -0.3 billion.
- Increase of cigarette excise according to the calendar by 3 ALL/package calendar with effect 0.46 billion ALL.
- Change in the excise tax rate for minced tobacco, cigars and cigarillos which increased to 6,000 ALL/kg, with a positive effect on the state budget of 0.22 billion ALL.
- Amendment to Law no. 92/2014 "On value added tax" is estimated to have an effect of ALL -0.3 billion in state budget revenues, but is expected to bring positive effects on the development of affected sectors.
- A customs tariff unification of 10% is proposed for all eight-digit codes of the category 8418 of the NMC, which is estimated to have a positive impact on the state budget by ALL 0.05 billion.
- Amendments in the law no. 9975/2008 on national taxes aim to review the taxation scheme for plastic and glass packaging and proposes to increase the chrome royalty on export. The effect in the state budget revenues, is estimated to be ALL 0.5 billion.

***Revenue forecast for each tax in 2019***
*VAT* revenues are estimated to be realized at ALL 153.3 billion, ALL 9.5 billion more than the preliminary 2018 (or 6.6%). The main source of additional revenue from VAT for 2019 is expected to be as follows:
- The result of economic growth.
- The increase in the volume of international trade and increase of the international oil prices.
- The result of the anti-informality campaign and strengthening the interaction between tax and customs administrations to control the chain of transactions and collection of this tax in the link that is created.

*Excise* revenues are estimated to increase by ALL 2.8 billion or 6.2% more than the preliminary 2018, with a total value of ALL 48.3 billion. The main factors, which influence the forecast growth in revenues from excise tax, are as follows:
- Growth programming with 200 tons of cigarettes compared with 2018;
- 4% increase in import/domestic production of fuels;
- Increase of excise tax by 3 ALL / packet with the effect of ALL 0.46 billion;
- Increase of revenues from excise tax on tobacco and other substitutes by ALL 0.22 billion;
- More rigorous control of excise subjects and further disciplining of the procedures for obtaining exemptions and reimbursements from this tax.

Revenues from *Profit tax* are estimated to be realized at ALL 33.5 billion or 7% more than fiscal year 2018, as a result of:
- Economic growth, which will also be reflected in taxpayer statements;
- Strengthening the control of statements, based on risk criteria;
- Fiscal contributions to be generated by the energy sector (OSHEE, KESH), which in 2018 appear to be improving compared to 2017, which will also be reflected in their financial balances. We point out that performance in 2018 profit tax and relatively low growth compared to 2017 is related to the energy situation that the country passed in 2018, which was reflected in the companies' fiscal balances and contributions in 2018.

Revenues from *Personal Income Tax* are estimated to be realized at ALL 43.4 billion, or 16% more than preliminary 2018. Estimating the revenues from personal income tax is taken in to consideration several factors such as:
- Economic growth and its impact on the average wage level;
- The increase in the number of the active contributors based on the performance of 2018.
- Reduction of income from the increase of the wage tax threshold with the tariff 23%, estimated at ALL -320 million per year.
- Reduction of the dividend tax rate from 15% to 8%, including the positive effects that will be generated by Incentives for the distribution of accumulated earnings from previous years, estimated at All 4.5 billion.

Revenues from *National Taxes* are estimated to be realized at ALL 39.7 billion, ALL 0.4 billion or 1% less than the preliminary of 2018. This decline in the National Tax revenues is related to:
- The effects from the closure of games of gambling calculated at ALL -4 billion.
- The effects of changes in the plastic packaging tax and royalties by about ALL +0.5 billion.
- The result of economic growth.

Revenues from *Custom Duties* are estimated to be realized at ALL 7.4 billion, ALL 390 million or 5.6% more than fiscal year 2018. In revenue programming, the effects of the increase of taxable imports, as well as some minimal effects from the movement of customs duties have been taken into account.

Revenues from *Social & Health Contributions* collected from GDT are considered to be realized at ALL 97.9 billion, ALL 6.4 billion or 7% more than preliminary 2018, which is estimated 91.5 billion. Programmed growth of revenues for contributions is supported by these factors:
- Economic growth, which will be reflected in increasing the number of employees;
- Strengthening the administration through the control of the declared wage level and its deviation from the real wage earned;
- The rate of increase in income from contributions in the last two to three years;
- The effect of about ALL 1 billion from the increase of the minimum wage from ALL 24 thousand to ALL 25 thousand, starting from 1 January 2019.

***Fiscal Risks***
- Growth by about 28% of Brent's crude oil price's compared to August 2018. In revenue planning, compensation for any possible price oscillation has been compensated through maximum discipline of exemptions and reimbursements beyond legal norms and projections.
- Based on the performance of 2018, it is forecasted an increase of 200 tons of cigarette imports with an effect on VAT, Excise and Taxes of ALL 1.8 billion. This forecast may not be realized at 100% of it. The risk of increasing cigarette imports by 100 tonnes and not by 200 tonnes as predicted, will have a negative effect of around ALL 0.8 billion.

- Growth of imported and domestic fuel production is forecasted by 4% based on the performance of 2018. If not verified this increase could go up to 3% with a negative effect on revenues by All -0.4 billion.
- Failure to achieve the projected revenues, related to the incentive of reduced dividend rate (from 15%-8%) for the distribution of profits carried forward from previous years. We estimate a risk of about ALL 1 billion.

| Risk | Negative Effects on revenues/ALL million | | | | |
|---|---|---|---|---|---|
| | Excise | Custom Duty | VAT | PIT | Total |
| Brent price growth is but 18% not 28% as predicted | | | 1,407 | | 1,407 |
| Fuel Growth (Import + Country Production) not 4% according to 2018 but 3% | 229 | | 138 | | 367 |
| Increase in imports of cigarettes by no more than 200 tonnes according to forecast but +100 tonnes | 570 | 22 | 167 | | 759 |
| Failure to allocate dividends of previous years | | | | 1,000 | 1000 |
| **Total** | **799** | **22** | **1,712** | **1000** | **3,533** |

***Local government achievements in the medium term***

In the medium term the MFE will enforce the implementation of the law no. 68, dated 27.04.2017 "On local self-government finances", in all local government units. With the adoption of this law and the sub-legal acts that are expected to be implemented, the fundamentals of good local finance management have been laid down. Through this law will be achieved the increase of fiscal and local financial autonomy through the provision of more funding sources for local self-government units, accompanied with more predictability, stability and transparency. At the same time, this law also regulates the strengthening of the rules and procedures for managing public finances at the local level by providing more fiscal discipline in line with the Law on Local Self-Government, and the Law on Management of the Budgetary System in the Republic of Albania. Considerable work has been done on the preparation of guidelines and by-laws aiming to improve and to unify the reporting formats for budget execution of LGUs. The guidelines are: "On the preparation of the MTBP", "On monitoring the implementation of the local budget". Moreover, quarterly budget monitoring reports for the local government are prepared. Another achievement is the introduction of the new Financial Planning Tool that provides new formats for the preparation of the Medium Term Budget to all LGUs.

Through the implementation of the new law on local finances, important regulatory measures will be implemented to improve financial management:
- Guaranteeing a local public finance system that promotes transparency, accountability and efficiency in the management and use of public resources.
- Efficient and well-integrated planning and budgeting of public spending at the local level with a view to increasing the efficiency and use of public funds economies.
- Preparation of a financial instrument, which will be used by all local government units, to draft the mid-term budget program, unifying the work processes.
- Strengthen of financial discipline at the local level through the establishment of principles, rules, processes and procedures for drafting, implementing and controlling the budget;
- The improvement of the reporting and monitoring of financial performance at local level;
- Increasing transparency in collecting and using of public funds of local government;
- Identification of the cases of financial problems of the units of local self-government, determination of the conditions when a local unit is considered as bankrupt and of the authorities that will administer the unit of local self-government in these situations

Through this system of rules that will be applied in all local government units, a transparent distribution of all funds will be achieved between central and local levels.

***Medium-term central government financing needs***

In the medium term, the Central Government financing needs will be met by using both domestic and external sources of financing.

The domestic financing sources will continue to be the main contributor *(over 75% of the total gross financing)* in order to support the development of the domestic market for government securities and to keep the foreign currency exchange risk under control *(foreign currency denominated debt/total debt not more than 55%).* Domestic financing will continue to be based on the banking sector; meanwhile there are positive expectations for an increase in the activity of non-financial institutions and Individuals.

Short-term securities will be mostly used to refinance the existing maturities and for active liquidity management purposes, meanwhile long-term securities will be used to cover the budget deficit. The domestic borrowing structure will be flexible in terms of government securities selection, depending on the market conditions *(the level of demand, interest rates, etc.)*, in order to ensure an optimal trade-off between cost and risks.

External financing will cover the annual gross borrowing needs of the Central Government in average up to 25%, and will contribute on the cost optimization of the debt portfolio, since a considerable part of external financing it is expected to be conducted through loans with concessional and semi-concessional terms *(through multilateral and bilateral sources)*. These sources of financing will mostly be used to finance the existing and new priority projects, and as well the reforms undertaken by the government.

Also, private sources of financing acquired in the international capital markets will be used mostly for risk and liability management purposes, and as well to avoid the crowding out of the domestic private sector.

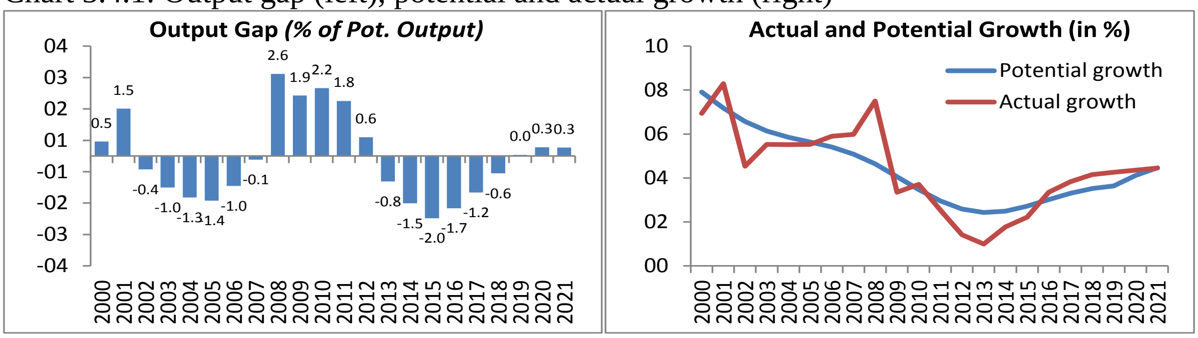
### 3.4. Structural balance (cyclical component of the deficit, one-off and temporary measures, fiscal stance)

***Estimating potential GDP and output gap***

The HP filtering technique was deployed to estimate a time series of potential GDP. An HP-filter was applied on the actual real output (GDP) in constant prices by considering the most literature advocated values for the parameter lambda in the case of annual data, namely $\lambda = 100$; $\lambda = 30$; $\lambda = 6.5$. The potential GDP was then derived as an average of the HP-filtered series based on those three different lambda parameters. Based on the obtained potential GDP the output level is then calculated accordingly. The average of MFE and IMF WEO (October 2017) for 2019 - 2021 were utilized to address the end-point problem common with this filtering technique.

The output gap, formally defined as $OG_t = \dfrac{GDP_{t,actual} - GDP_{t,potential}}{GDP_{t,potential}}$ is presented on the left side of figure below. While the respective potential growth versus actual one is presented on the right side.

Chart 3.4.1: Output gap (left), potential and actual growth (right)




*Source: Ministry of Finance and Economy*

The results indicate that the actual output has been below potential for the period 2002 – 2006, almost closing in 2007 and then jumping to a relatively large positive gap in 2008. The last positive shift in output gap persisted somehow also during 2009-2012 gradually shrinking in reflection of a lower actual growth compared to the potential one due to the negative effects of the global financial crises. Despite Albania managed to absorb relatively much smother the first hit from the global crises in 2009 avoiding a likely severe recession which took place in most of the other countries, still the actual growth was weakened substantially compared to pre-crises levels but also compared to its potential one. In 2013 the lowest growth was recorded and at the same time the output gap shifted on negative territory and staying into negative until 2018 with the trough reached in 2015. The output gap is expected to close in 2019 and to stay just slightly above its potential in 2020 and 2021, while the actual growth is projected to converge to its potential in 2021.

***Estimating elasticity and budget sensitivity to output gap***

After removing one-off items present in the fiscal indicators, the revenues' and expenditures' elasticity's are estimated based on both the disaggregated (OECD 2005 approach) and aggregated approach (IMF 2010 approach). However, the final overall elasticity obtained from each approach were quite similar. More specifically, the overall revenue elasticity derived from specific revenue items' elasticity's estimated through the disaggregated approach was 1.03, while the revenue elasticity estimated from the aggregated approach was 1.45.[12] Total revenues were adjusted for cyclical effects by applying the average elasticity obtained from both approaches, namely $\varepsilon_{R,Y} = average(1.03, 1.45) = 1.24$.

The expenditure's elasticity didn't differ from zero. The regression analysis yielded expenditures elasticity with a negative sign based on both approaches but none of them was significant at conventional levels, implying an elasticity coefficient equal to zero, $\varepsilon_{G,Y} = 0$.Therefore, total expenditures were not adjusted for cyclical effects. Applying straightforward the formula of the budget balance's sensitivity to the output gap (or the so called semi-elasticity) we obtained the following value:

$$\sigma_B \equiv r(\varepsilon_{R,Y} - 1) - g(\varepsilon_{G,Y} - 1) = 0.251(1.24 - 1) - 0.261(0 - 1) = 0.321$$

Where: *r = 0.251* is the average ratio of total revenues to GDP (excluding one-offs) for the last five years (2013 – 2017); g = 0.261 is the average ratio of primary expenditures to GDP (excluding one-offs) for the last five years (2013 – 2017). The estimated parameter of budget sensibility implies that for each percentage point of negative (positive) output gap the overall primary fiscal balance will deteriorate (improve) by 0.321 percentage points of potential GDP.

*Estimating the cyclically adjusted fiscal balance and assessing the fiscal policy stance*

Based on estimated output gaps *(OG)* and the budget sensibility parameter *($\sigma_B$)* the cyclical component of the primary fiscal balance *(CPB)* in terms of potential GDP is calculated as: $CBT_t = \sigma_B * OG_t$. Whereas, the automatic stabilizers are defined as the change in *CPB* in two consecutive years *(AS)*, as: $AS_t = CPB_t - CPB_{t-1}$

The cyclically adjusted primary balance *(CAPB)* is calculated as the difference between the actual primary fiscal balance *(PB)* and its cyclical component *(CPB)*: $CAPB_t = PB_t - CPB_t$. The overall cyclically adjusted balance *(CAB)* is derived after subtracting interest expenditures *(INT)* to the cyclically adjusted primary balance: $CAB_t = CAPB_t - INT_t$.

Fiscal impulse *(FI)* in terms of potential GDP is the change of the cyclically adjusted primary balance

[12] Due to lack of data and relatively short series, in the case of disaggregated approach, some of the estimated elasticity / coefficients were not significant at conventional levels and several assumptions were imposed.

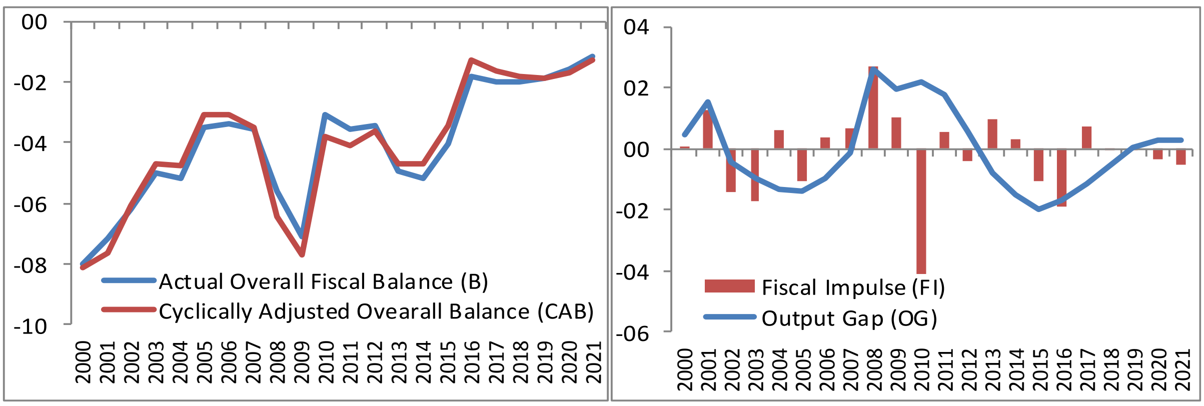
at each year relative to the previous one: $FI_t = CAPB_{t-1} - CAPB_t$

Based on the direction of fiscal impulse (tightening or easing) and output gap (negative or positive) a simple assessment as regards the nature of fiscal policy stance is presented, whether it has been pro-cyclical, counter-cyclical or neutral during certain periods of time. The obtained results are presented in the following tables and graph.

Table 3.4.1: Fiscal policy stance

| Year | Output Gap (OG) | Actual Overall Fiscal Balance (B) | Actual Primary Fiscal Balance (PB) | Cyclical Primary balance (CPB) | Cyclically Adjusted Primary balance (CAPB) | Interest Expenditures (INT) | Cyclically Adjusted Ovearall Balance (CAB) | Automatic Stabilizers (AS) | Fiscal Impulse (FI) |
|---|---|---|---|---|---|---|---|---|---|
| 1999 | 1.4 | -9.6 | -1.7 | 0.4 | -2.2 | 7.9 | -10.0 | - | - |
| 2000 | 0.5 | -8.0 | -2.1 | 0.1 | -2.2 | 5.9 | -8.1 | -0.3 | 0.1 |
| 2001 | 1.5 | -7.2 | -3.0 | 0.5 | -3.5 | 4.2 | -7.7 | 0.3 | 1.2 |
| 2002 | -0.4 | -6.2 | -2.2 | -0.1 | -2.0 | 4.1 | -6.1 | -0.6 | -1.4 |
| 2003 | -1.0 | -5.0 | -0.6 | -0.3 | -0.3 | 4.4 | -4.7 | -0.2 | -1.7 |
| 2004 | -1.3 | -5.2 | -1.3 | -0.4 | -0.9 | 3.9 | -4.7 | -0.1 | 0.6 |
| 2005 | -1.4 | -3.5 | -0.3 | -0.5 | 0.2 | 3.2 | -3.0 | 0.0 | -1.1 |
| 2006 | -1.0 | -3.4 | -0.5 | -0.3 | -0.2 | 2.9 | -3.1 | 0.1 | 0.4 |
| 2007 | -0.1 | -3.5 | -0.9 | 0.0 | -0.8 | 2.7 | -3.5 | 0.3 | 0.7 |
| 2008 | 2.6 | -5.6 | -2.7 | 0.8 | -3.5 | 2.9 | -6.4 | 0.9 | 2.7 |
| 2009 | 1.9 | -7.1 | -3.9 | 0.6 | -4.5 | 3.2 | -7.7 | -0.2 | 1.0 |
| 2010 | 2.2 | -3.1 | 0.3 | 0.7 | -0.4 | 3.4 | -3.8 | 0.1 | -4.1 |
| 2011 | 1.8 | -3.5 | -0.4 | 0.6 | -0.9 | 3.2 | -4.1 | -0.1 | 0.5 |
| 2012 | 0.6 | -3.4 | -0.3 | 0.2 | -0.5 | 3.1 | -3.6 | -0.4 | -0.4 |
| 2013 | -0.8 | -5.0 | -1.7 | -0.3 | -1.5 | 3.2 | -4.7 | -0.5 | 1.0 |
| 2014 | -1.5 | -5.2 | -2.3 | -0.5 | -1.8 | 2.9 | -4.7 | -0.2 | 0.3 |
| 2015 | -2.0 | -4.1 | -1.4 | -0.6 | -0.7 | 2.7 | -3.4 | -0.2 | -1.1 |
| 2016 | -1.7 | -1.8 | 0.6 | -0.5 | 1.2 | 2.5 | -1.3 | 0.1 | -1.9 |
| 2017 | -1.2 | -2.0 | 0.1 | -0.4 | 0.4 | 2.1 | -1.6 | 0.2 | 0.8 |
| 2018 | -0.6 | -2.0 | 0.3 | -0.2 | 0.5 | 2.2 | -1.8 | 0.2 | 0.0 |
| 2019 | 0.0 | -1.9 | 0.5 | 0.0 | 0.5 | 2.4 | -1.9 | 0.2 | 0.0 |
| 2020 | 0.3 | -1.6 | 0.9 | 0.1 | 0.9 | 2.5 | -1.7 | 0.1 | -0.4 |
| 2021 | 0.3 | -1.2 | 1.5 | 0.1 | 1.4 | 2.6 | -1.2 | 0.0 | -0.5 |

Chart 3.4.2: Fiscal policy stance




*Source: Ministry of Finance and Economy, 2018*

Table 3.4.2: Fiscal policy relative to economic cycles

| Fiscal stance | Unit | Number of years 2000 - 2018 | 2019 - 2021 |
|---|---|---|---|
| Pro-cyclical | number | 10 | 0 |
| Counter-cyclical | number | 7 | 2 |
| Neutral | number | 2 | 1 |
| **Cumulative output gap *v.s.* Cumulative fiscal impulse --> Overall fiscal stance** | | | |
| Cumulative output gap | p.p. of GDP | -1.9 | 0.6 |
| Cumulative fiscal impulse | p.p. of GDP | -2.6 | -0.9 |
| Overall fiscal stance | | Pro-cyclical | Counter-cyclical |

This simple descriptive analysis shows that during 2000 – 2018 the stance of fiscal policy has been pro-cyclical in ten cases (years), counter-cyclical in seven on them and neutral in the other two. While for the three years horizon ahead it is projected to be mostly counter-cyclical (in 2019 and 2020) and neutral in 2021.

When measured as a cumulative sum of fiscal impulses of each year relative to the cumulative output gap for those respective years, the fiscal stance results pro-cyclical during 2000-2018. More specifically, the cumulative output gap for 2000-2018 results negative at 1.9 percentage points of potential GDP, while the cumulative fiscal impulses for the respective period results also negative at 2.6 percentage points of GDP. This indicates a pro-cyclical fiscal policy most likely reflecting the relatively high level public debt and therefore implying for a higher importance being given toward the objective of ensuring long term sustainability of public finance versus the objective of short term stabilisation of economic cycles. In the medium term ahead 2019-2021 cumulative fiscal impulse is still projected to be negative, in line with the main objective of public debt reduction, however during this period that is expected to be somehow more in supportive also toward the economic stabilisation objective as far as the cumulative output gap is expected to be positive. Hence, the fiscal policy in the medium term ahead is projected to be counter-cyclical.

## 3.5. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

During nine months of 2018, debt management has been characterized mostly by positive developments, being in consistence with the Budget Plan for 2018 and the Medium-Term Debt Management Objectives. In this regard, government financing needs have been met successfully by maintaining acceptable ratios between costs and risks. Also, activities that aim the further development of the primary market for government securities have been undertaken.

In accordance with the Budget Law, borrowing was successfully achieved by enabling the refinancing of existing debt maturities and as well covering the government liquidity needs. Borrowing was realized through domestic and external sources, respectively at the levels of 99% and 48% of the annual borrowing plan[13].

In compliance with debt management objectives, the risks of domestic debt portfolio have been further reduced, while the borrowing costs have been kept under control.

***Central Government Debt Development***

By the end of September 2018, the Central Government Debt amounted at ALL 1,089.0 billion or 66.1% of the GDP[14]. In accordance with the Macro-Fiscal objectives, the level of central government debt relative to GDP has entered into a declining path since 2016. Estimations indicate that debt to GDP will continue to stay on the same path and it will be decreased about 1 percentage points by the end of 2018.

[13] Referring to the Normative Act No. 1, dated 26.07.2018, "On the budget of 2018".

[14] GDP on annual basis, as referred in the Draft Macro-Fiscal Framework 2020-2022.

Table 3.5.1: Stock of total central government debt

in million ALL

| | 2014 | 2015 | 2016 | 2017 | 18-Sep |
|---|---|---|---|---|---|
| **Total Debt Stock (I+II)** | **977,103** | **1,042,272** | **1,065,709** | **1,087,342** | **1,088,972** |
| **I. Domestic Debt Stock** | **564,674** | **551,375** | **561,120** | **577,056** | **590,991** |
| -Government Debt | 538,641 | 520,936 | 530,834 | 546,939 | 575,663 |
| -Guaranteed debt | 26,033 | 30,439 | 30,286 | 30,117 | 15,328 |
| **II. External Debt Stock** | **412,429** | **490,897** | **504,589** | **510,286** | **497,980** |
| -Government Debt | 383,922 | 465,306 | 481,407 | 490,518 | 466,427 |
| -Guaranteed Debt | 28,507 | 25,591 | 23,182 | 19,768 | 31,554 |
| **GDP** | **1,395,305** | **1,434,307** | **1,475,251** | **1,552,868** | **1,647,625** |
| Total Debt Stock/GDP | 70.03% | 72.67% | 72.24% | 70.02% | 66.09% |
| Domestic Debt Stock/GDP | 40.47% | 38.44% | 38.04% | 37.16% | 35.87% |
| External Debt Stock/GDP | 29.56% | 34.23% | 34.20% | 32.86% | 30.22% |

*Source: Ministry of Finance and Economy, 2018*

The central government debt in terms of maturity structure and instrument composition followed almost the same trends as in 2017. In line with the strategic objectives for risk mitigation purposes the share of long-term and fixed rate debt increased respectively by 1.6 and 1.1 percentage points. The above mentioned changes in the debt composition are mostly attributed on the domestic debt.

Table 3.5.2: Central government debt stock composition

| | 2016 | | 2017 | | Sep-18 | |
|---|---|---|---|---|---|---|
| | mln ALL | % of total | mln ALL | % of total | mln ALL | % of total |
| **I. Maturity** | **1,065,709** | **100.0%** | **1,087,342** | **100.0%** | **1,088,972** | **100.0%** |
| **i. Short-term by original maturity** | **239,694** | **22.5%** | **225,164** | **20.7%** | **213,490** | **19.6%** |
| - Government Securities | 209,409 | 19.6% | 195,047 | 17.9% | 198,162 | 18.2% |
| - Loans | 30,286 | 2.8% | 30,117 | 2.8% | 15,328 | 1.4% |
| **ii. Long-term by original maturity** | **826,015** | **77.5%** | **862,178** | **79.3%** | **875,482** | **80.4%** |
| - Government Securities | 382,279 | 35.9% | 411,720 | 37.9% | 434,332 | 39.9% |
| - Loans | 443,736 | 41.6% | 450,459 | 41.4% | 441,150 | 40.5% |
| **II. Currency** | **1,065,709** | **100.0%** | **1,087,342** | **100.0%** | **1,088,972** | **100.0%** |
| - Domestic Currency | 540,614 | 50.7% | 552,054 | 50.8% | 571,737 | 52.5% |
| - Foreign Currency | 525,095 | 49.3% | 535,288 | 49.2% | 517,235 | 47.5% |
| **III. Residency** | **1,065,709** | **100.0%** | **1,087,342** | **100.0%** | **1,088,972** | **100.0%** |
| - Domestic Creditors | 583,933 | 54.8% | 599,668 | 55.1% | 612,724 | 56.3% |
| - Foreign Creditors | 481,776 | 45.2% | 487,673 | 44.9% | 476,248 | 43.7% |
| **IV. Interest type*** | **1,035,424** | **97.2%** | **1,057,230** | **97.2%** | **1,073,643** | **98.6%** |
| - Fixed rate | 738,313 | 69.3% | 758,266 | 69.7% | 777,033 | 71.4% |
| - Variable Rate | 297,111 | 27.9% | 298,964 | 27.5% | 296,610 | 27.2% |
| **V. Concesionality*** | **1,035,424** | **97.2%** | **1,057,230** | **97.2%** | **1,073,643** | **98.6%** |
| - Concesional Rate | 252,257 | 23.7% | 257,883 | 23.7% | 247,451 | 22.7% |
| - Marketable Rate | 783,167 | 73.5% | 799,347 | 73.5% | 826,192 | 75.9% |

**Domestic central government guaranteed debt is excluded*

*Source: Ministry of Finance and Economy, 2018*

### *Financing Needs*

During nine months of 2018, in the domestic market the government has issued securities in the amount of ALL 249.3 billion, out of which ALL 219.6 billion enabled the refinancing of existing securities. In line with the strategic objectives and taking advantage by the low interest rate environment, new borrowing in the domestic market was achieved mainly through long-term government securities enabling the further reduction of the risks exposure.

Table 3.5.3: Domestic Borrowing

| Type of Instrument | January-September 2018 Issuance (in billion ALL) | Maturities (in billion ALL) | Net Financing (in billion ALL) | Net Financing (in %) |
|---|---|---|---|---|
| **Short Term Instruments** | **169.8** | **166.7** | **3.1** | **10.5%** |
| Treasury Bills | 169.8 | 166.7 | 3.1 | 10.5% |
| **Long Term Instruments** | **79.5** | **52.9** | **26.5** | **89.5%** |
| 2 Year Bonds | 36.4 | 27.4 | 9 | 30.4% |
| 3 Year Bonds | 5 | 8.1 | -3.1 | -10.4% |
| 5 Year Bonds | 20 | 17.4 | 2.6 | 8.7% |
| 7 Year Bonds | 8.9 | 0 | 8.9 | 30.1% |
| 10 Year Bonds | 9.1 | 0 | 9.1 | 30.7% |
| **Total** | **249.3** | **219.6** | **29.7** | **100%** |

*Source: Ministry of Finance and Economy, 2018*

Foreign borrowing during nine months of 2018 amounted at EUR 98.1 million, mainly achieved by multilateral and bilateral sources in the form of loan disbursements, which financed the ongoing and new development projects. Compared with the same period of the previous year it is noticed a decrease in the amount of gross external financing due to the lack of loans in the form of budgetary support.

Table 3.5.4: Budgetary Central Government External Debt disbursements

| | 9M 2017 | | 9M 2018 | |
|---|---|---|---|---|
| | **Amount** (in million EUR) | **% of Total** | **Amount** (in million EUR) | **% of Total** |
| **Total Disbursements** | **276.6** | **100%** | **98.1** | **100%** |
| Budgetary Support | 146.1 | 52.8% | 0.2 | 0.2% |
| Project Financing | 130.5 | 47.2% | 97.8 | 99.8% |

*Source: Ministry of Finance and Economy, 2018*

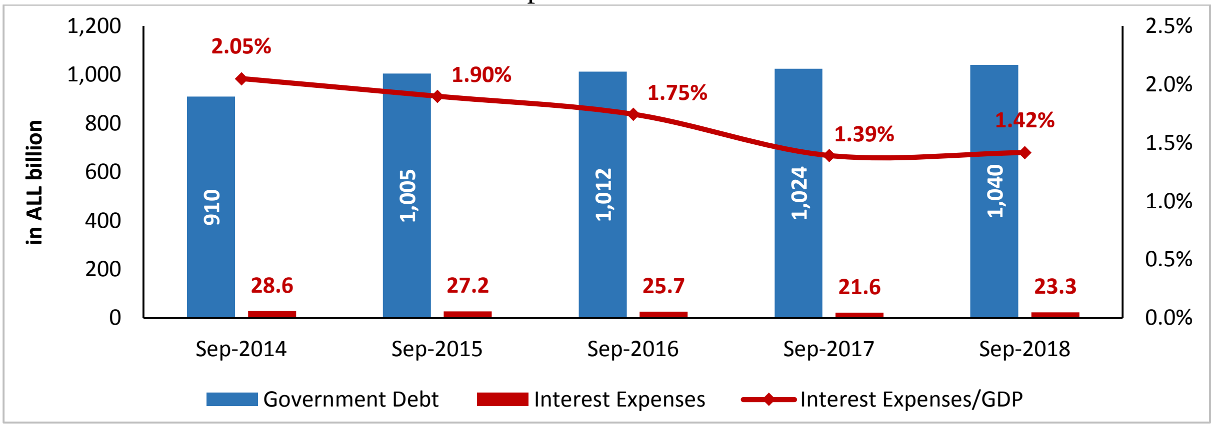
***Cost and risks***

During 2018 domestic debt portfolio was managed effectively by further reducing risks exposure, as well as by maintaining costs under control. The debt structure improved mainly in terms of reducing the refinancing and interest rate risk. Risk mitigation was conducted mainly by increasing the share of long-term debt and reducing the share of the variable rate instruments.

***Cost***

During nine months of 2018, interest expenses are evaluated at the level of ALL 23.3 billion. Compared to the same period of 2017, interest expenses for government debt increased by ALL 1.7 billion, mainly due to the increase of interest rates during 2017 and the increase of debt stock in absolute terms.

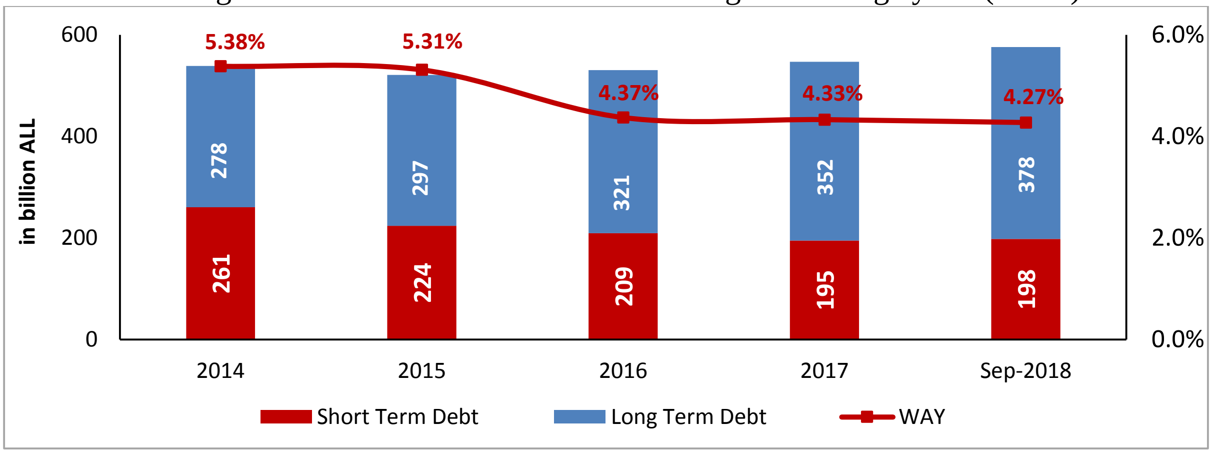
Chart 3.5.1: Government debt interest expenses in absolute terms and in relative terms to GDP




*Source: Ministry of Finance and Economy, 2018*

On the other hand, albeit the increase in the share of long term domestic debt portfolio, the weighted average yield has slightly decreased by reflecting an improvement in the relation between cost and risks.

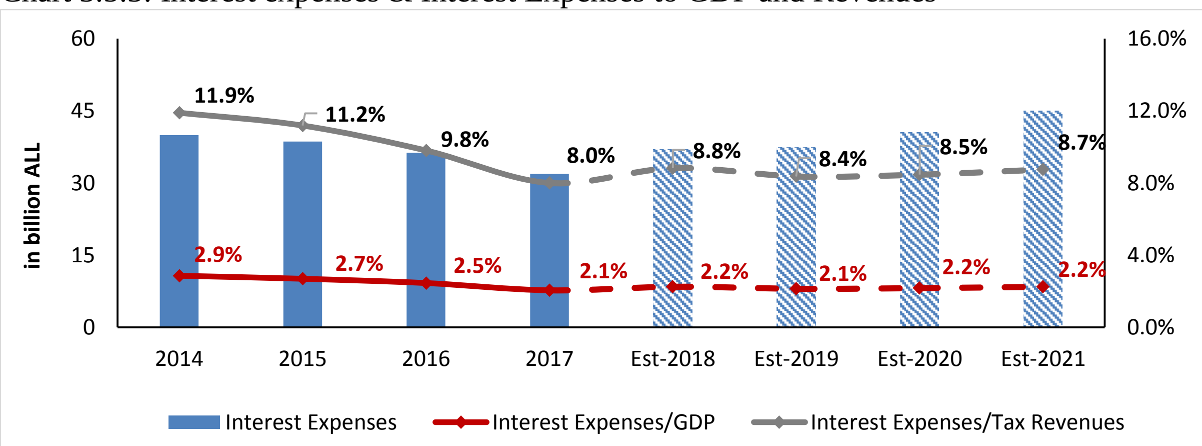
Chart 3.5.2: Long-term/ short-term domestic debt & weighted average yield (WAY)




*Source: Ministry of Finance and Economy, 2018*

In the medium term, it is expected a gradual increase of cost in absolute terms, due to the increase of debt stock *(in nominal terms)* and the expectations for an increase in interest rates in the domestic and external markets. Albeit, in relative terms to GDP and tax revenues, cost is expected to remain stable and in comparable levels with the average of the last 3 years.

Chart 3.5.3: Interest expenses & Interest Expenses to GDP and Revenues




*Source: Ministry of Finance and Economy, 2018*

***Risks***
The reduction of refinancing and interest rate risk in the domestic market has been one of the main strategic objectives of the debt management. In this aspect, considerable progress has been done during the nine-month period of 2018.
External debt represents less risk since it is composed by long-term instruments and considerable share of it is borrowed with concessional terms.
Refinancing risk has improved due to the decrease of short-term debt. The average time to maturity of domestic debt is 790 days by the end of September 2018, compared with 780 days at the end of 2017.
The interest rate risk also has shown significant improvement due to the decrease in the share of short term and variable rate instruments in the domestic debt portfolio, respectively with 1.24 and 1.60 percentage points compared to the end of 2017.
In addition, the share of debt that re-fixes the interest rate within one year reduced from 56.7% in December 2017 to 56.4% in September 2018.

Table 3.5.5: Domestic Debt interest rate risk indicators

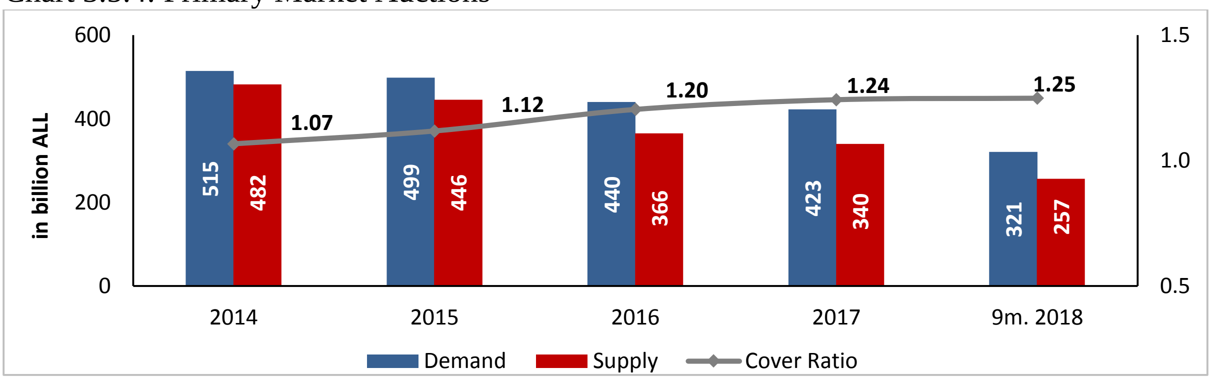
| Indicator | 2016 | 2017 | Sep-18 |
|---|---|---|---|
| Variable Rate Bonds/Total | 12.7% | 8.8% | 7.2% |
| Fixed Rate Bonds/Total | 47.9% | 55.5% | 58.4% |
| Re-fixed Debt in one Year/Total | 62.6% | 56.7% | 56.4% |

*Source: Ministry of Finance and Economy, 2018*

Despite the positive developments domestic debt continues to pose a relatively high refinancing and interest rate risk that needs to be further mitigated in the future. In this regard, in the medium and long term, debt management will continue its efforts to further extend the average maturity of domestic debt and keep under control the share of variable rate securities.

***Market Development***
During 2018, the domestic market of government securities has been characterized mainly by positive developments. Worth to be mentioned are: i) the satisfactory demand for Government securities; ii) the diversification of demand toward the category of *Individuals*; iii) the low volatility of interest rates; IV) implementation of Pilot Project for the 5 Year Reference Bond.
During the nine month period, the demand for government securities amounted to ALL 320.8 billion *(ALL 213.6 billion related to Treasury Bills and ALL 107.2 billion related to Bonds)*. The demand for Government securities has been relatively high compared to the supply and has generated a positive bid/cover ratio for the most of the auctions.

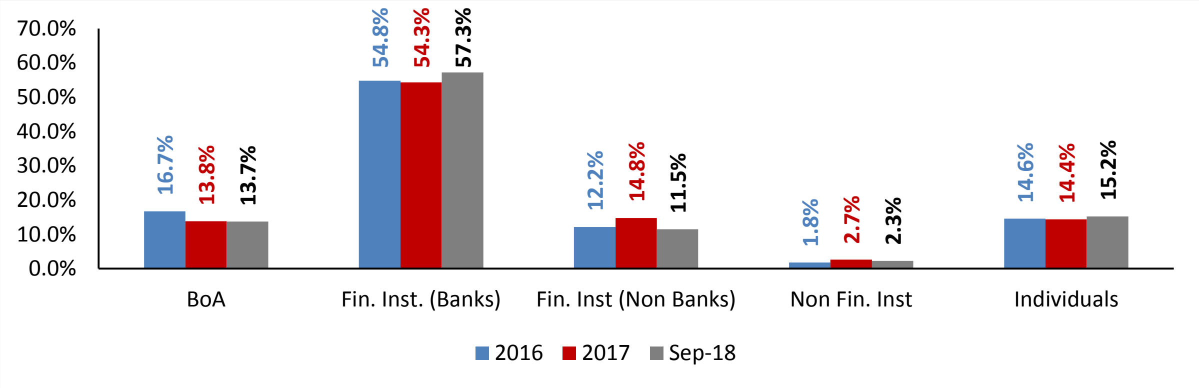
Chart 3.5.4: Primary Market Auctions




*Source: Ministry of Finance and Economy, 2018*

The main driving actors of the demand for 2018 have been the Financial Institutions *(Banks)*, Individuals and Bank of Albania. The relatively high demand for government securities in the category of *Banks* is driven mostly by the lower degree of risk offered by the government securities compared to other alternative investments, and in the category of *Individuals* by the better interest rates offered by government securities compared to deposits.

Chart 3.5.5: Primary market demand for Government securities

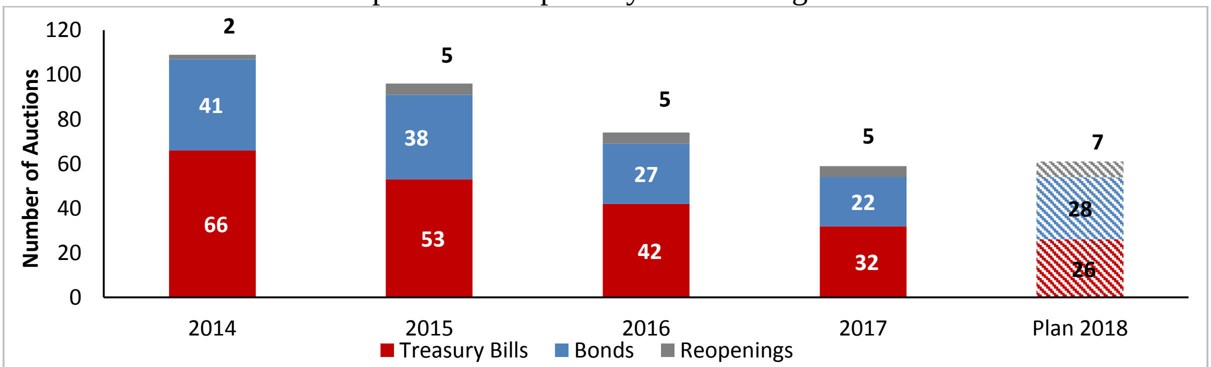



*Source: Ministry of Finance and Economy, 2018*

Within the framework of improving the primary market infrastructure and stimulating the secondary market development, during 2018, have been undertaken activities that aimed the reduction of demand fragmentation and the benchmark creation for long term securities. The number of auctions have been further consolidated, by using the reopening of existing issues instead of new ones *(new lines).*

Also, during the nine-month period of 2018 for the first time was implemented a pilot project for the *5 year Reference Bond*, where the main purpose of this project is to compare and analyze the advantages and disadvantages of the primary dealer system with the actual issuing system of government securities.

Chart 3.5.6: Auctions development in the primary market for government securities



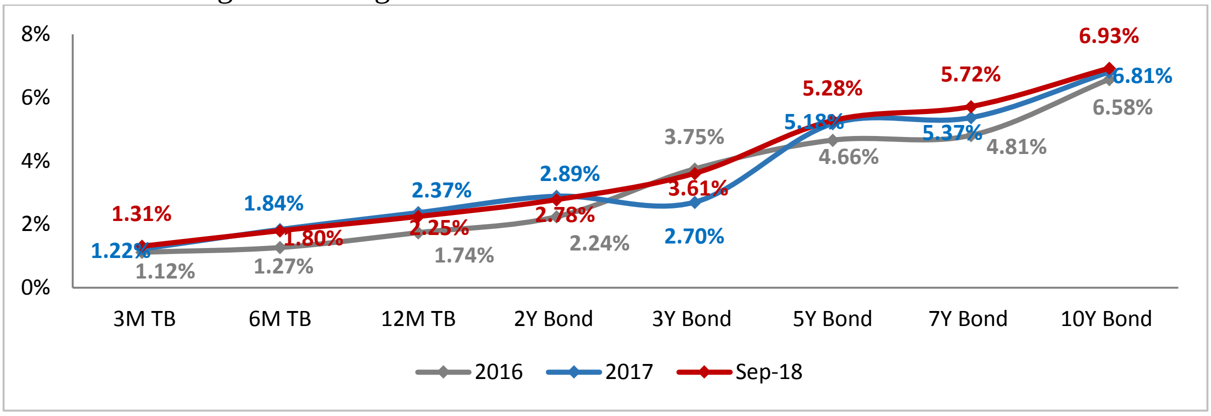

*Source: Ministry of Finance and Economy, 2018*

In the medium term, the objective for the development of the primary market will be focused mostly in activities that will aim the increase of liquidity, efficiency and transparency.

***Interest Rate Development***

The weighted average yield of Government securities has moderately increased in the segment of long-term bonds, compared with the end of 2017. However, this increase was within expectations and had no impact on the average cost of the domestic debt portfolio, which at the end of September 2018 is at a lower level compared with the end of December 2018 *(respectively 4.33% and 4.27%).*

Chart 3.5.7: Weighted Average Yield for Government Securities




*Source: Ministry of Finance and Economy, 2018*

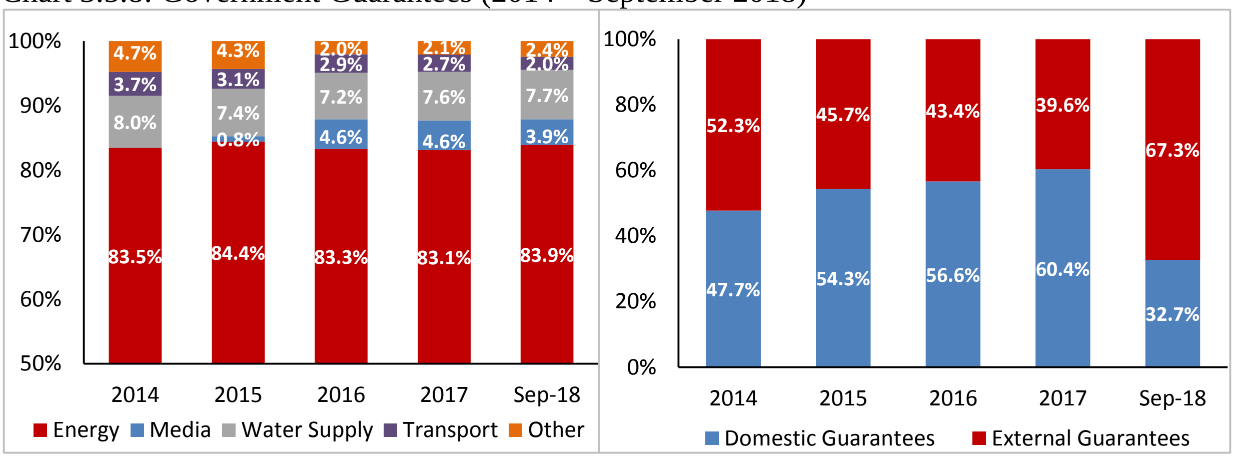
Over the medium term, the interest rates for government securities in the domestic market are expected to increase gradually starting from the second half of 2019, but still reaming below the historical average.

***Contingent Liabilities***

At the end of September 2018, Guaranteed Debt portfolio stands at the level of ALL 46.9 billion *(2.8% of the GDP)* or 4.3% of the Central Government Debt portfolio. Guarantees in the domestic market account for 32.7% of the total guaranteed debt stock or ALL 15.3 billion, while guarantees issued in favor of foreign creditors represent 67.3% of the guaranteed debt stock or ALL 31.6 billion. Compared to the end of 2017, guaranteed debt has been reduced in absolute value by ALL 3.0 billion, mainly as a result of the higher level of repayments compared to disbursements and because of the appreciation of the domestic currency against other currencies that compose this portfolio. The domestic guaranteed debt consist of short-term credit lines with commercial terms, which are granted to KESH sh.a., while external guarantees consist of long-term loans with concessional or semi-concessional terms.

During 2018, was disbursed the first tranche of the guaranteed EBRD loan *(Euro 118 million)* which enabled the partial refinancing of the domestic guaranteed debt portfolio, by optimizing in that way the cost and risks exposure of KESH sh.a.

Chart 3.5.8: Government Guarantees (2014 – September 2018)




*Source: Ministry of Finance and Economy (2018)*

In the medium term, the level of guaranteed debt is planned within the level of 5-6% of GDP and the new guaranteed debt will be issued mostly for purpose such as:

- To support the development oriented projects that contribute in the improvement of infrastructure, regional development, environmental protection, and creation of new jobs;
- To support possible measures undertaken in case of potential deterioration in the financial system;
- To manage the existing contingent liabilities in order to improve the cost and risks of this portfolio.

***Concessions and Public-Private Partnerships:***

The Ministry of Finance and Economy evaluates and approves in advance all concessions and public private partnership (PPP) projects, as well as any change to them, in terms of individual or portfolio implications to budget expenditures, deficit, public debt sustainability and eventual contingent liabilities. The total amount of net payments made by central government units, arising from concessions or public private partnerships (PPP) contracts should not exceed the limit of 5 percent of actual tax revenues of the previous budget year. In case of exceeding this limit, Council of Ministers takes necessary and sufficient corrective measures toward budgetary revenues, to return within the allowed limit over the next two budget years.

Table 3.5.6: Concessions/ Active PPP with budget support

,000 ALL

| Contracting Authority | Nr. | Contract of Concession / PPP | Starting year | Ending Year | Program | Type of expenditure | 2018 11M | 2019 Expectation | 2020 Expectation | 2021 Expectation |
|---|---|---|---|---|---|---|---|---|---|---|
| Ministry of Infrastructure and Energy | 1 | Construction, operation and transfer of incinerator for urban waste disposal of the Municipality of Elbasan | 2015 | 2021 | 06220 | Investments | 503,969 | 661,500 | 661,500 | 661,500 |
| | 2 | Construction, operation and transfer of incinerator for urban waste disposal of Fier Municipality | 2016 | 2023 | 06220 | investments | 627,309 | 752,772 | 752,772 | 752,772 |
| | 3 | Construction, Operation and Transfer (BOT) HEC on the Devoll River, reimbursement of replacement road construction | 2015 | 2019 | 04320 | investments | 1,355,108 | 1,584,406 | 0 | 0 |
| | 4 | Construction and Operation of the Arber Road | 2018 | 2030 | 04520 | investments | 0 | 2,600,000 | 2,600,000 | 2,600,000 |
| | 5 | Construction, Operation and Maintenance of Milot-Morinë Road | 2017 | 2047 | 04520 | investments | 58,244 | 681,101 | 899,160 | 899,160 |
| | 6 | Construction and Operation Thumane-Vore * | 2018 | 2030 | 04520 | investments | 0 | 0 | 2,445,408 | 2,520,000 |
| | 7 | Construction and Operation Porti Jahteve Orikum - Dukat* | 2018 | 2030 | 04520 | investments | 0 | 0 | 0 | 354,984 |
| | 8 | Construction and Operation Milot - Balldren* | 2018 | 2032 | 04520 | investments | 0 | 0 | 0 | 0 |
| Ministry of Finance and Economy | 1 | Customs scan service | 2013 | 2030 | 01150 | current | 1,400,740 | 1,624,419 | 1,710,582 | 1,761,582 |
| Ministry of Health and Social Protection | 1 | Concession / PPP Basic control of population 35-70 years (check up) | 2015 | 2024 | 07220 | current | 803,076 | 876,090 | 876,090 | 876,090 |
| | 2 | Concession / PPP (Provision of personalized sets of surgical instruments, sterile single-use medical materials in surgical rooms, treatment of biological waste and disinfection of surgical rooms) | 2015 | 2024 | 07330 | current | 1,179,808 | 1,607,109 | 1,655,322 | 1,704,982 |
| | 3 | Concession / PPP (Provision of dialysis service in 5 regional hospitals) | 2016 | 2025 | 07330 | current | 543,697 | 646,637 | 688,581 | 734,021 |
| | 4 | Hospital Laboratory Services* | 2019 | 2028 | 07330 | current | 0 | 886,000 | 886,000 | 886,000 |
| Municipality of Tirana / Ministry of Education, Sports and Youth | 1 | Construction of Pre-University Education Schools in the Municipality of Tirana | 2017 | 2024 | 09120 | investments | 224,000 | 0 | 1,018,303 | 1,528,336 |
| Ministry of Infrastructure and Energy / Municipality of Tirana | 1 | Incinerator of Tirana | 2017 | 2046 | 06220 | current | 720,131 | 756,828 | 756,828 | 894,433 |
| | 15 | | | | | Total | 7,416,082 | 12,676,862 | 14,950,546 | 16,173,859 |
| Expected Revenues for the period 2018-2020 | | | | | | | 419,402,377 | 447,136,713 | 478,911,309 | … |
| Fiscal Rule ( Payments should not exceed 5 percent of actual tax revenues of the predecessor budget year) | | | | | | | … | 3.0% | 3.3% | 3.4% |

**Financial support requests for for these projects is approved by MoFE and up to the end of 2018 and during 2019 is expected to be signed the contracts*

Currently, 11 concessions and public private partnerships (PPP) contracts are active, meanwhile till the end of 2018 and during 2019, 4 other contracts by Ministry of Infrastructure and Energy and Ministry of Health and Social Protection are expected to start according the following table:

According to the article 4/2, Law No. 9936 date 26.06.2008 "On the management of the budgetary system", where it is determined that *"the total amount of net payments made by central government units, arising from concessions or public private partnerships (PPP) contracts should not exceed the limit of 5 percent of actual tax revenues of the previous budget year"*, for 2019 it is noticed that:

- For year 2019, the allowed limit of net payments for concessions and PPP contracts, of 5 percent of actual tax revenues of the previous budget year, is about 20.97 billion ALL.
- According to the table above, expected net payments from central government units for concessions and PPP for 2019 are about 12.7 billion ALL.

- Therefore, according to the specific fiscal rule, the legal limitation abovementioned is fulfilled for the budget year 2019, as the estimated value of ALL 12.7 billion for concessions and PPP contracts for 2019 are about 3 percent of expected total tax revenues of 2018, amounting to ALL 419.4 billion.

During year 2018, Ministry of Finance and Economy has intensified financial performance monitoring over concessions/PPP contracts with budgetary support. The monitoring process was conducted periodically on quarterly basis to identify and track step by step any potential risk that might be materialized by their implementation.

Regarding the actual performance of concessions payments, for the period January-September 2018 and the expectations for the end 2018, a comprehensive summery is described below:

- Budget funds planned for the year 2018, to support concessions/PPP contracts, amounted to ALL 8.05 billion, where ALL 2.85 billion are investments and ALL 5.2 billion are current expenditures.
- Compared to actual expenditures for 2017 which amounted to 6.5 billion ALL, the 2018 plan result almost 19.3 percent higher or ALL 1.55 billion more.
- Total actual payments for the period January-September 2018 are ALL 7.4 billion or 92.1 percent of the plan for 2018. The highest level of payments were marked in March with 1.91 billion ALL disbursement of which 1.35 billion ALL is "one-time" payment to Devoll River HEC concession contract.
- Based on the forecast of payment performance for the remaining period of 2018 (December), expected fund to be executed is about ALL 526.3 million ALL level which fulfills 100 percent the annual plan approved for 2018.

Starting from year 2019, reporting and monitoring process on concessions/PPP contracts will be institutionalize through the annual guideline of the Minister of Finance and Economy on the implementation of the state budget, with the mandatory timeline of their reporting from each of contracting authority and the respective formats to be submitted, in order to deepen the analysis and increase transparency.

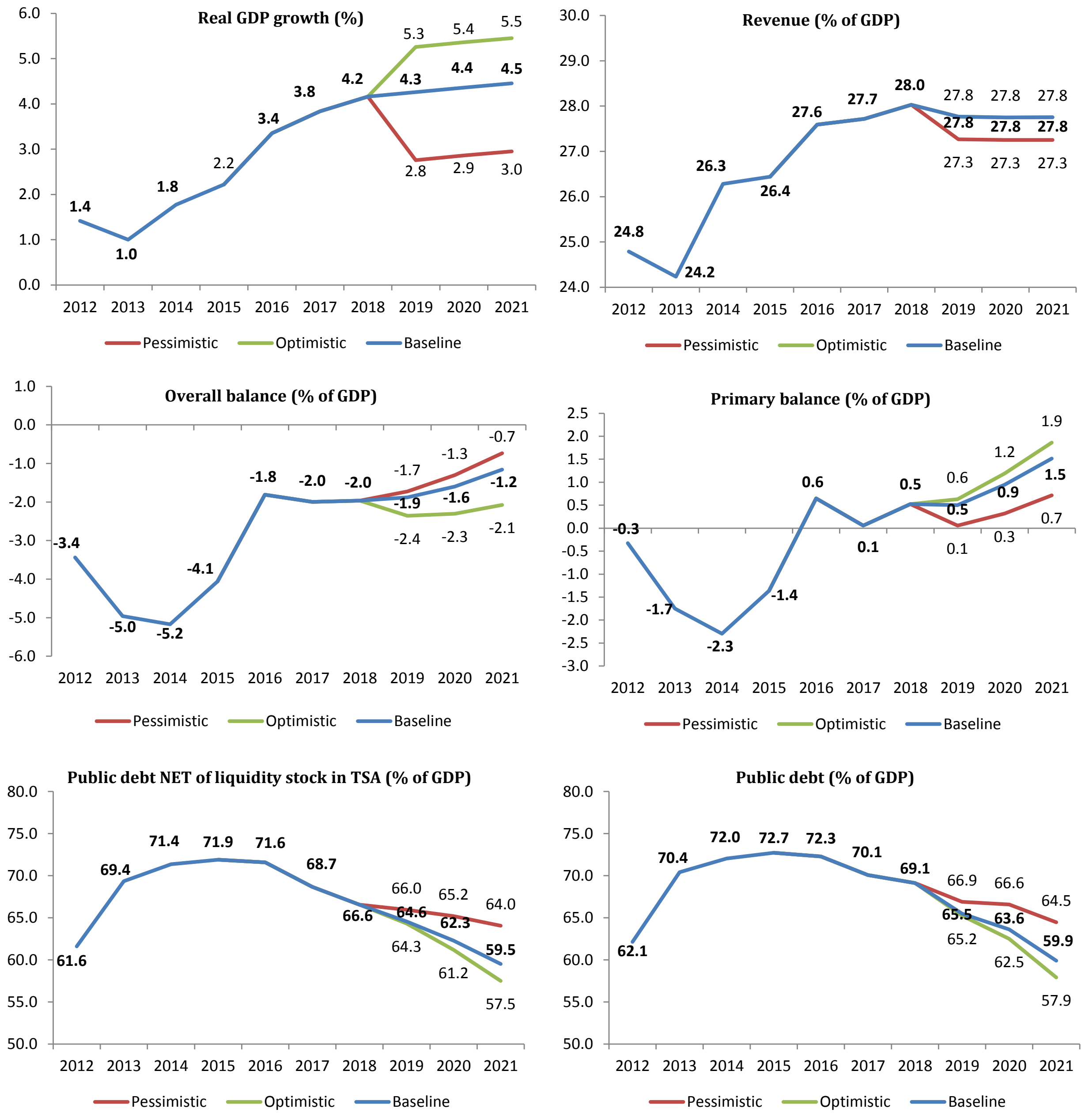
Based on actual assessments, the risk that concessions/PPP payments exceed the legal limit is low as long as the number of new concessions/PPP is under control.

### 3.6. Sensitivity analysis and comparison with the previous program

This section presents the expected implications on the fiscal framework as well as fiscal policy possible adjustments. It is in line with the two alternative macroeconomic scenarios presented in section 2.3. In the case of the "pessimistic" macroeconomic scenario, which assumes a significantly lower economic growth than the baseline projected for each year, the respective fiscal framework will be based on lower tax elasticity than the baseline. This assumption reflects the rationale that generally a significantly lower economic growth level is expected to lead at lower tax collection efficiency for a number of the major tax components. While in case of the "optimistic" macroeconomic scenario, the revenue to GDP ratio is assumed at the same level as in the baseline scenario. The overall consolidating fiscal policy is planned to be preserved in each macroeconomic scenario. However, the quantitative target of annual fiscal deficit differ to some extent in each scenario reflecting a countercyclical adjustment toward different assumed dynamics of the economic cycle. More specifically, it is foreseen a relaxation of the fiscal deficit target in case of the "pessimistic" scenario and a stronger fiscal consolidation in the case of the "optimistic" scenario. The amount of loosening (tightening) of the nominal deficit target in the "pessimistic" ("optimistic") scenario equals half of the deviation of total revenues in each of the alternative scenarios versus the baseline. Public debt is expected to be reduced in each scenario. However, contrary to the baseline macro-scenario, the public debt reduction trajectory is smoother in the case of "pessimistic" scenario. On the other hand, in the case of "optimistic" scenario it curbs down quicker than in the baseline.

The main item of expenditures which are planned to absorb most of the fiscal effects in the case of each alternative scenario are "capital expenditures with domestic financing". Although there is an explicit line of contingencies for interest rate shocks in the medium term budgets as well as other implicit contingencies, we do not account ex ante on their utilization to meet deficit targets in the pessimistic scenario. However, in practice (ex post), in case the revenues turn out to be lower than the baseline but at the same time there will be no shocks in the interest rates and therefore no additional interest expenditures then the baseline budgeted ones (which is most plausible case), then a buffer in the range of around 0.3 percent of GDP for each year would be automatically available to absorb part of fiscal pressures in case of a pessimistic scenario. Also, the higher needs for deficit financing in the case of "pessimistic" scenario are expected to be covered by higher net domestic borrowing. The fiscal implications of the alternative macro-scenarios are presented in the following table and charts.

Chart 3.6.1: Dynamics of main indicators under different scenarios




*Source: Ministry of Finance and Economy, 2018*

## Table 3.6.1: Main fiscal indicators in each scenario

| | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 Est. | 2019 Proj. | 2020 Proj. | 2021 Proj. |
|---|---|---|---|---|---|---|---|---|---|---|
| **Total Revenue (in billion Lek)** | | | | | | | | | | |
| ***Baseline*** | 330.4 | 327.2 | 366.7 | 379.2 | 407.0 | 430.4 | 461.8 | 486.7 | 518.7 | 555.1 |
| ***Pesimistic*** | | | | | | | | 471.0 | 494.8 | 522.0 |
| ***Optimistic*** | | | | | | | | 491.3 | 528.7 | 571.2 |
| **Total expenditures (in billion Lek)** | | | | | | | | | | |
| ***Baseline*** *from which:* | 376.2 | 394.1 | 438.8 | 437.4 | 433.7 | 461.4 | 494.2 | 519.6 | 548.6 | 578.3 |
| *(% of GDP)* | *28.2%* | *29.2%* | *31.5%* | *30.5%* | *29.4%* | *29.7%* | *30.0%* | *29.6%* | *29.3%* | *28.9%* |
| Current expenditures | 312.6 | 328.6 | 341.0 | 350.8 | 368.7 | 382.3 | 408.3 | 426.1 | 452.3 | 476.9 |
| *(% of GDP)* | *23.5%* | *24.3%* | *24.4%* | *24.5%* | *25.0%* | *24.6%* | *24.8%* | *24.3%* | *24.2%* | *23.8%* |
| Capital expenditures *from wich:* | 61.7 | 65.5 | 60.7 | 63.1 | 59.5 | 68.5 | 84.4 | 91.1 | 92.8 | 97.3 |
| *(% of GDP)* | *4.6%* | *4.8%* | *4.4%* | *4.4%* | *4.0%* | *4.4%* | *5.1%* | *5.2%* | *5.0%* | *4.9%* |
| Domestic financing | 27.4 | 36.7 | 34.0 | 38.1 | 39.1 | 46.2 | 53.8 | 58.0 | 58.3 | 59.7 |
| Foreign financing | 34.3 | 28.8 | 26.8 | 24.9 | 20.4 | 22.3 | 30.6 | 32.6 | 34.4 | 37.6 |
| ***Pesimistic*** *from which:* | | | | | | | | 511.8 | 536.6 | 562.2 |
| *(% of GDP)* | | | | | | | | *29.6%* | *29.6%* | *29.4%* |
| Current expenditures | | | | | | | | 424.1 | 450.3 | 474.4 |
| *(% of GDP)* | | | | | | | | *24.5%* | *24.8%* | *24.8%* |
| Capital expenditures *from wich:* | | | | | | | | 84.8 | 82.8 | 83.7 |
| *(% of GDP)* | | | | | | | | *4.9%* | *4.6%* | *4.4%* |
| Domestic financing | | | | | | | | 52.2 | 48.4 | 46.1 |
| Foreign financing | | | | | | | | 32.6 | 34.4 | 37.6 |
| ***Optimistic*** *from which:* | | | | | | | | 521.9 | 553.6 | 586.9 |
| *(% of GDP)* | | | | | | | | *29.5%* | *29.1%* | *28.5%* |
| Current expenditures | | | | | | | | 424.1 | 450.3 | 474.4 |
| *(% of GDP)* | | | | | | | | *24.0%* | *23.6%* | *23.0%* |
| Capital expenditures *from wich:* | | | | | | | | 95.4 | 99.8 | 108.3 |
| *(% of GDP)* | | | | | | | | *5.4%* | *5.2%* | *5.3%* |
| Domestic financing | | | | | | | | 62.3 | 65.3 | 70.8 |
| Foreign financing | | | | | | | | 32.6 | 34.4 | 37.6 |
| **Overall balance (% of GDP)** | | | | | | | | | | |
| ***Baseline*** | -3.4 | -5.0 | -5.2 | -4.1 | -1.8 | -2.0 | -2.0 | -1.9 | -1.6 | -1.2 |
| ***Pesimistic*** | | | | | | | | -2.4 | -2.3 | -2.1 |
| ***Optimistic*** | | | | | | | | -1.7 | -1.3 | -0.7 |
| **Financing of overall balance (in billion Lek)** | | | | | | | | | | |
| ***Baseline*** *from which:* | 45.9 | 66.9 | 72.1 | 58.2 | 26.7 | 31.0 | 32.4 | 32.9 | 29.8 | 23.2 |
| Net domestic borrowing | 24.8 | 46.3 | 38.2 | -17.3 | 10.6 | 16.3 | 19.9 | 22.9 | 22.9 | 22.9 |
| Net foreign borrowing *from wich:* | 19.4 | 10.8 | 29.9 | 64.6 | 17.5 | 29.1 | 32.6 | -15.8 | 15.5 | -16.5 |
| Budgetary support from IFIs | 0.0 | 0.0 | 30.5 | 111.5 | 21.1 | 31.3 | 1.0 | 0.0 | 0.0 | 0.0 |
| Other foreign borrowing | 21.6 | 9.6 | 1.3 | -43.9 | -3.2 | -2.4 | 31.6 | -15.8 | 15.5 | -16.5 |
| ***Pesimistic*** *from which:* | | | | | | | | 40.7 | 41.8 | 39.8 |
| Net domestic borrowing | | | | | | | | 30.7 | 34.8 | 39.5 |
| Net foreign borrowing *from wich:* | | | | | | | | -15.8 | 15.5 | -16.5 |
| Budgetary support from IFIs | | | | | | | | 0.0 | 0.0 | 0.0 |
| Other foreign borrowing | | | | | | | | -15.8 | 15.5 | -16.5 |
| ***Optimistic*** *from which:* | | | | | | | | 30.6 | 24.8 | 15.1 |
| Net domestic borrowing | | | | | | | | 20.6 | 17.9 | 14.8 |
| Net foreign borrowing *from wich:* | | | | | | | | -15.8 | 15.5 | -16.5 |
| Budgetary support from IFIs | | | | | | | | 0.0 | 0.0 | 0.0 |
| Other foreign borrowing | | | | | | | | -15.8 | 15.5 | -16.5 |
| **Primary balance (% of GDP)** | | | | | | | | | | |
| ***Baseline*** | -0.3 | -1.7 | -2.3 | -1.4 | 0.6 | 0.1 | 0.5 | 0.5 | 0.9 | 1.5 |
| ***Pesimistic*** | | | | | | | | 0.1 | 0.3 | 0.7 |
| ***Optimistic*** | | | | | | | | 0.6 | 1.2 | 1.9 |
| **Public debt NET of liquidity stock in TSA (% of GDP)** | | | | | | | | | | |
| ***Baseline*** | 61.6 | 69.4 | 71.4 | 71.9 | 71.6 | 68.7 | 66.6 | 64.6 | 62.3 | 59.5 |
| ***Pesimistic*** | | | | | | | | 66.0 | 65.2 | 64.0 |
| ***Optimistic*** | | | | | | | | 64.3 | 61.2 | 57.5 |
| **Public debt (% of GDP)** | | | | | | | | | | |
| ***Baseline*** | 62.1 | 70.4 | 72.0 | 72.7 | 72.3 | 70.1 | 69.1 | 65.5 | 63.6 | 59.9 |
| ***Pesimistic*** | | | | | | | | 66.9 | 66.6 | 64.5 |
| ***Optimistic*** | | | | | | | | 65.2 | 62.5 | 57.9 |

*Source: Ministry of Finance*

### 3.7. Fiscal governance and budgetary frameworks

The efforts to achieve the vision of a modern and efficient management of Albania's public finances have been focused in the application of several instruments: legislation, capacity building, culture changes, IT-development, and process reengineering. During 2014 –2018, in order to achieve the objectives set in the PFM Strategy 2014-2020, MFE has undertaken several activities to improve these instruments. In the early 2018, MFE has undertaken the process of Mid-term Evaluation for PFM Strategy to identify progress, achievements, challenges and gaps in order to plan the future agenda and SMART approach to PFM reform. A desk stock-take of progress is undertaken and key priorities for the period 2018-2022 are defined. The Revised Strategy of PFM 2018-2022 and the Action Plan 2018-2022 will be discussed during the consultation workshop that will be held in January 2019. Considering the implementation and the progress done for each pillar, it is decided to continue the implementation for most of the ongoing activities, some activities are reformulated and new activities are added, based on findings from international reports. As well, after the review of PFM framework and pillars focus, it is proposed that the PFM Revised Strategy 2018-2022 to be composed by seven pillars. This is related with the changes proposed to the existing pillar three which has a broad area of focus. In this context, aiming to focus more in the realization of the action plan, it is proposed to split pillar three in two pillars: pillar 3- Revenue Administration and pillar 4- Efficient execution of the Budget.

*Pillar 1: Sustainable and prudent fiscal framework:* This pillar will be made of two component. The component one: 'Fiscal rules, forecasting and fiscal responsibility framework', since all planned activities were completed, the revised strategy will contain a new focus: *Monitoring and reporting the application of fiscal rules according to OBL*, with the objective as before, to ensure sustainable and prudent fiscal frameworks, based on clearly stated fiscal objectives. The component two 'Fiscal risk management' will be focused as before aiming to ensure adequate capabilities to detect monitor and propose measures to mitigate fiscal risks faced by the government.

*Pillar 2: Well integrated and efficient planning and budgeting of public expenditure:* This pillar will be made of five components. The component one "Managing policy development and improving Integrated Strategic Governance", will be focus on improving the process of developing and monitoring sector strategies and integration with MTBP. The component two 'Medium Term Budget Program', will refocus on methodological improvements and fully implement the new MTBP guideline for further advancement of the Programme and Performance Budgeting. The component three 'Capital investment planning, appraisal and inclusion in budget', will refocus to implement new PIM procedures implementation aiming to optimize value for money. The component four 'Project and Contract of PPP and Concessions' is proposed to be added as a new component. It comprises a new focus of the PFM strategy, to ensure a prudent and stringent legal framework for a better management of PPP and Concessions in all stages, aiming to reduce fiscal risk. The component five "PFM in local government" will be focus on better management and increased local revenue collection; clearance of the local arrears; and on alignment of MTBP in local level with MTBP in central level. The objective is reformulated as "Prudent, effective, and efficient financial management of the local governments and well integrated and efficient planning and budgeting".

*Pillar 3: Revenue Administration:* This is a new pillar with two existing components tax and custom administration that cover only the revenue side from budget execution. First component 'Tax administration' will continue with the objective to ensure an effective, efficient and transparent management of tax revenues, refocusing mainly on property tax base. Second component 'Customs management' will be refocus on the objective to protect the financial and economic interests of Albania, to contribute to the safety and security of the society and to facilitate trade, cooperate on national and international level with all relevant stakeholders.

*Pillar 4: Efficient execution of the Budget:* This is a new pillar with five existing components. The component one is "Improve the coverage and functionality of AGFIS", which is focused to make AGFIS available to all major budget entities and to integrate AGFIS and other government IT systems under AFMIS. The objective is fully transparent and unified internal financial control on the state budget execution process. The component two is "Management of external funds". The focus will be on putting into operation EAMIS and integration with IPSIS and AFMIS. The objective will be " Effective and transparent use of the Government's management and control systems for all external funds, including EU funded projects under IPA programs in Decentralized mode". The component three "Debt management" has the objective to ensure the government's financing need in a timely manner, and as well to minimize borrowing costs subject to keeping risks at an acceptable level". The component four "Public Procurement" will be focused on improving the planning of public procurement procedures; increasing transparency in public procurement; improving efficiency in using public funds; improving legal framework amendment of the PPC regulatory framework in line with the amended Public Procurement Law and strengthening PPC independency. The component five 'Asset Management' will focus to complete asset registry including values and depreciation rules according to national standards.

*Pillar 5: Transparency Assessment of Public Finances:* The existing pillar four will be moved as pillar five, and will be rename: "Transparency Assessment of Public Finances". The component one "Accounting", of the pillar five, will be focused as before aiming to ensure the fully implementation of IPSAS in order to have improvement of Financial Reporting Standards. The component two will be "National Government Accounts", which is removed from pillar one to pillar five, since the objective to build an independent statistical system for the estimation of GFS following international standards, is related more with the government reporting rather than the objective of pillar one, which aims to maintain a sustainable and prudent fiscal framework. This includes the process of reports preparation following ESA 2010 TP on GFS, to compile and send new tables of GFS to EUROSTAT.

*Pillar 6: Effective internal control:* The component one "Financial Management and Control at Public Institutions" will be refocusing on amending methodological FMC framework, monitoring the implementation of the legal framework for FMC and increasing the awareness of public units about the benefits of implementing the concept of "Managerial Accountability". The objective and the outcome indicator will remain the same as before. The component two "Internal Audit" will be composed by four sub-components refocusing on carrying out external evaluations for public institutions regarding to the internal audit activity and evaluating and addressing the root causes of arrears in internal audit unit reports. The objective will be changed focusing more on strengthening the IA function in the public sector. The outcome indicators will remain the same as before. The component three "Public Financial Inspection" will be composed by three sub-component refocusing on improving the professional capacities and increasing accountability and integrity of internal public financial inspectors; on increasing awareness campaign on the role and the functions of Public Financial Inspection, as well as on increasing the quality of external public financial experts. The objective will be changed focusing more on improving the efficiency of the public financial inspection.

*Pillar 7: Effective external oversight of the public finances:* The component one "External Audit" will be focused on improving the legal framework and impact of audit work, also introducing new audit approaches. The Component 2 "Strengthen Parliamentary oversight and accountability for public spending" is proposed to be added. It will focus on scrutinizing the annual auditor's reports on public finances and publication of the reports on in-year budget implementation.

# 4. STRUCTURAL REFORM PRIORITIES IN 2019-2021

## 4.1. Identification of key obstacles to growth and competitiveness and inclusive growth

Maintaining Albania's economic recovery in the framework of the medium-term macro-fiscal balance is very important to ensuring future economic development. The fiscal consolidation and reduction of public debt is essential for reducing debt-related vulnerabilities that hamper growth and cause macroeconomic instability. Fiscal consolidation will continue, but it will need to be supported by deep structural reforms in many areas of the economy.

**Transport and energy** infrastructure, owing to the fact that they have not been fully modernised or constructed, and the existence of non-physical barriers to trade within the regional markets, limit the degree of integration. Liberalisation of the energy market continues to be among the reform priorities of the GoA, along with the diversification of the energy sources, reducing energy dependence from imports and modernise the land transport infrastructure, namely railway lines. As regards ICT, the development of broadband infrastructure is being given due importance. In the energy sector, the progress made to reduce distribution losses and by improving bill collection rate, in spite of the promising results thus far, needs further consolidation. The reform for diversifying energy sources is crucial for having sustainable and growth-promoting public finances.

Regulatory **burdens to businesses** continue to be obstacles for the development of SME. There have been noticeable efforts undertaken to tackle the high level of non-performing loans; access to finance is still an impediment for business development. Addressing the institutional and regulatory barriers faced by businesses, simplifying rules, procedures and other procedural requirements, with particular emphasis on improving predictability and transparency of business regulation, are crucial to business development.

Regional **trade** integration requires a systemic approach toward trade facilitation. Engaging in facilitating trade - at the border and beyond - puts much emphasis on policy coordination and harmonization, strengthen dialogue with private sector and strengthen the capacities of all border agencies. Procedural simplification and reducing the time and cost of trade and transport will contribute to reduce the economic distance to potential markets of export.

The mismatch of **labour market** skills needs and what the labour force has to offer is still present and limiting. More efforts need to be put into investing in skills and professional qualifications, which will help increase employment opportunities. This will require, inter alia that labour market policies incorporate an efficient **inclusion of social** and gender groups, development of programs in support of **vocational education** training, creation of new employment opportunities, etc. This approach will contribute to reduce the mismatch between skills demand and supply in the market, help facilitate the integration of vulnerable groups, and help boost economic growth and increase the competitiveness.

### <u>Progress toward establishment of the new reform institutions in the justice system</u>

***Justice Appointments Council (JAC)***

Pursuant to Article 149/ d of the Constitution, the Justice Appointments Council carry out the verification of the legal conditions and assessment of the professional and moral criteria of the candidates for the High Justice Inspector as well as for the candidates for members of the Constitutional Court. The Justice Appointments Council consists of 9 selected members by lot, among the ranks of judges and prosecutors. They exercise their mandate for one year.

**On 7 December 2018,** the Speaker of Parliament, pursuant to point 3 of article 149 / d of the Constitution, article 284 of the law no. 115/2016 "*On the Governance Bodies of Justice System"*, as well as Order no. 2 of 3.12.2018, of the Speaker of the Parliament "*On determining the procedure and rules for drawing the lots for the election of members of the Justice Appointment Council*", developed the procedure for drawing the lots for the election of members of the Justice Appointment Council (interim mandate). As a result of the lot, 8 members of the of Justice Appointment Council were appointed, as well as three substitute members. One of the members of the JAC, respectively

the President of the Constitutional Court, was dismissed from office by a final decision of the Special Appeal Chamber. Consequently, the JAC for 2019 has only 7 members and three deputy members.
The Justice Appointments Council, appointed according to this lot, exercises its function starting from January 1, 2019.

***The High Judicial Council (HJC)***

Article 147 of the Constitution provides that the HJC is a collegial organ composed of 11 members out of which 6 members are elected by the judges of all levels and 5 members are elected from members of the legal professional community (two members from the lawyers community; two members from the community of High Education Institutions and School of Magistrates; one member from the civil society) by the Parliament.
The five members elected by the Assembly come from the lawyers (2 members), academia (2 members) and civil society 1 (member). The process of selecting 5 members from among non-judicial legal experts for HCJ has been already finalized. The Assembly has approved by Decision no. 18/2018 for the election of members of the High Judicial Council, according to Law no.115/2016, "On the government bodies of justice system", candidates of the third list of the package.
On 12.12.2018, the General Meeting of Judges was held for the election of members of the High Judicial Council. At the end of the voting process were selected 6 Judges as members of the High Judicial Council.

***The establishment of the High Judicial Council was declared on 12.12.2018***

The High Judicial Council held its first (constitutive) meeting on 20th December 2018, during which the Chairman and the Deputy Chairman of the Council were elected.
In its meeting of 22 December 2019, the HJC, considering the importance of the election of the vice-presidents of the courts and the exercise of their activity, under the conditions when there are no presidents in the courts, paved the way for this process by adopting the rules for the election of the vice-presidents of the courts.
This process, as one of the most urgent priorities of HJC work, has begun in some courts and currently there are general meetings of judges, which have elected the respective vice-chairpersons, specifically:
Until 8.01.2019, the process was completed in the district courts of Puka, Berat, Korça, Shkodra and Kurbin. The process is continuing in all other first instance and appeal courts, and within January 2019 will be completed.
In its meeting on 27.12.2018, the High Judicial Council considered with priority the functioning of the Special Courts against Corruption and Organized Crime and the appointment of candidates for magistrates graduated from the School of Magistrates.
Pursuant to the competences established by law, the Council decided to initiate the procedure for the temporary assignment of judges to the Special Courts against Corruption and Organized Crime paving the way for the creation of these courts.
Also, commenced the process of communication with state institutions competent for the verification of property and image of graduate magistrate candidates in 2018.
The council approved the termination status of a judge of Tirana Appeals Court, due to his resignation.
During the plenary meeting of the High Judicial Council of January 10, 2019, it was decided to suspend the judge Roland Hysi, Judge at the Court of First Instance of Fier, for whom was decided the security measure "prison custody" from the First Instance of Serious Crimes Court, suspected for the criminal offense of passive corruption provided by article 319/c of Criminal Code. Serious violation of ethics that can discredit the judge's reputation were the main reasons why the justice reform was implemented.

***The High Prosecutorial Council (HPC)***

The High Prosecutorial Council referred to constitutional provisions (Article 149 of the Constitution) guarantees the independence, accountability, discipline, status and career of prosecutors of the Republic of Albania. The High Prosecutorial Council consists of 11 members, 6 of whom are elected by judges of all levels of the judiciary and 5 members are elected by the Parliament, from among non-prosecutorial jurists respectively: 2 members from the ranks of lawyers; 2 members from the bodies of law faculty professors and the School of Magistrates and 1 member from civil society.
By decision no. 19/2018, dated on. 08.02.2018, the Parliament of Albania decided to consider elected the candidates of the third list *en bloc* for members of the High Prosecutorial Council, resulting from the drawing of the lot into the subcommittee 'On the selection of candidates for members of the High Judicial Council and the High Prosecutorial Council', due to the failure to reach a two-thirds majority vote of all members of the Parliament.
On 11.12.2018, the General Meeting of Prosecutors was held for the election of members of the High Prosecutorial Council. At the end of the voting process were selected 6 prosecutors as members of High Prosecutorial Council.

The High Prosecutorial Council held its first (constitutive) meeting on 19th December 2018, during which the Chairman and the Deputy Chairman of the Council were elected.

The High Prosecutorial Council, already established, is the competent authority for appointing the prosecutors of the Special Prosecution Office against Corruption and Organized Crime.

Pursuant to Article 179/8 of the Constitution, Article 7 of the Law "On the Organization and Functioning of Institutions for Combating Corruption and Organized Crime" (hereafter the SPAK Law) and Articles 48/2 and 3 of the Law " On the Status of Judges and Prosecutors in the Republic of Albania "(hereafter the Law on Status), the High Council of Prosecution has announced on 07 January 2018 the initiation of the procedures for filling 15 (fifteen) vacant positions in the Special Prosecution Office against Corruption and Organized Crime.

For more information please refer to the web page www.klp.al

***High Justice Inspector***
The Constitution of the Republic of Albania, in Articles 147/d, 147/dh, 147/e and 147/ë foresees the conditions and procedures for the election of the High Justice Inspector, as a new body in the justice system provided by constitutional amendments. According to the constitutional provisions, the High Justice Inspector is responsible for the verification of complaints, investigation of violations and initiation of disciplinary proceedings against judges and prosecutors of all levels, members of the High Judicial Council, members of the High Prosecutorial Council and the General Prosecutor.
The High Justice Inspector is elected by three-fifths of all members of the Parliament for a period of nine years, without the right of re-election, among the distinguished jurists with no less than 15 years of professional experience in the profession, with high moral and professional integrity. The High Justice Inspector is elected from the list of five candidates selected and ranked on the merits by Justice Appointment Council, according to a transparent and public procedure. If the Parliament fails to reach a majority of three-fifths for any of the candidates within 30 days of the submission of the list, the candidate ranked first in the list is considered elected.
The High Justice Inspector has not yet been elected because the application process and the selection of candidacies for this position is conditioned simultaneously on JAC's functioning as well as performing the re-evaluation process of the candidates. After the Justice Appointment Council (interim mandate) will start to exercise its functions, the procedures for the election of the High Justice Inspector will start. The first meeting of JAC was held on 15.01.2019 where the new JAC (interim mandate) discussed about the information on vacancies of the Constitutional Court, announced by the President of the Republic and by the Assembly and the High Court, information on the issues

related to the vacant position of the High Justice Inspector, the number of candidacies and the administration of documentation concerned.

***Progress toward establishment of the Special Prosecutor's Office against Corruption & Organized Crime and Special Investigation Unit/National Bureau of Investigation***

As mentioned above The High Prosecutorial Council, already established, is the competent authority for appointing the prosecutors of the Special Prosecution Office against Corruption and Organized Crime. The High Prosecutorial Council, has announced on 07 January 2019 the initiation of the procedures for filling 15 (fifteen) vacant positions in the Special Prosecution Office against Corruption and Organized Crime.

The High Prosecutorial Council calls on all of prosecutors that want to be part of SPAK and fulfil the following criteria:

- They have been acting as prosecutors for not less than 10 years;
- There are no disciplinary measures in force;
- Give consent to periodic control of bank accounts and personal telecommunications

- Ensure the consent of immediate family members for periodic control of bank accounts and personal telecommunications;
- They are not members of the High Prosecutorial Council

Pursuant to Article 6/1 / a of the Law on SPAK, upon filing of the applications, the candidates will be subject to the verification of the property and the image, part of vetting process.

**Independent Commission for Coordination, Monitoring and Enforcement of Law no. 115/2016 "On the governance bodies of the justice system"**

The Parliament of Albania has approved the decision no.74/ 2018, dated on 31.05.2018 "On the establishment of the Independent Commission for Coordination, Monitoring and Enforcement of Law no. 115/2016 "On the governance bodies of the justice system". The Independent Commission, which will be established pursuant to Article 288 of Law no. 115/2016 "On the governance bodies of the justice system", is responsible:

a. to monitor the selection process of candidates and the election and appointment of members of the governance bodies of justice system;
b. to coordinate between institutions and bodies implementing Law no. 115/2016 "On the governance bodies of the justice system" and follow the progress of the implementation of the provisions of law no. 115/2016 by the respective institutions provided for in this Law, within the prescribed legal deadlines,
c. to report once a month to Commission on Legal Affairs, Public Administration and Human Rights about the progress of law enforcement, and whenever necessary and required by it,
d. to report to the Parliament on the progress of the implementation of the law whenever required by it.

The Independent Commission consists of 5 members, elected by secret ballot, by simple majority, from the list of candidates approved by the Committee on Legal Affairs, Public Administration and Human Rights.

By decision no. 97/2018, dated on 20.9.2018 Parliament has elected the 4 members of the Independent Commission for Coordination, Monitoring and Enforcement of Law no. 115/2016.

Since the number of members of this commission has not been completed, the Committee on Legal Issues decided on 24 September 2018 to announce the opening of the application procedure for the election of the 5th member of this commission. Following the publication of the call for expressions of interest to complete the vacancy in this commission, 3 applications have been submitted. The committee on legal issues, after the hearing held with the candidates on 17.10.2018, decided to propose all three candidacies for voting in the plenary session of 25.10.2018.

Parliament, by Decision no. 109/2018, dated on 25.10.2018 elected the fifth member of this Commission.

The Independent Monitoring Commission is constituted and started functioning on 5.11.2018. The Independent Commission for the period of November - December 2019 held 4 meetings. Representatives of the Commission participated in the quality of the observers at the General Meeting of Judges, held on 12.12.2018 for the election of members of the High Judicial Council and also at the General Meeting of Prosecutors held on 11.12. 2018, for the election of members of the High Prosecutorial Council, as well as in the drawing of the lot for the election of members of the Council of Appointments in Justice, held on 7 December 2018.
The Independent Monitoring Committee has drawn up and adopted the relevant monitoring reports on the selection procedures for members of the High Judicial Council, the High Prosecutorial Council and the Council of Appointments in Justice.

**Re-valuation Institutions**
The process of evaluating the subjects of the re-valuation is carried out by:
- the Independent Qualification Commission,
- The appeal chamber,
- Public Commissioners, in cooperation with international observers.

**The Independent Qualification Commission** is a new constitutional body with a five-year term created by the new constitutional changes as part of the Justice Reform package for the establishment of a free professional, independent and uncorrupted judiciary system. The Albanian Parliament by the decision no. 82/2017, dated 17 June 2017, approved on block the list composed of 12 commissioners. The activity of the Independent Qualification Commission is grounded by the Constitution of the Republic of Albania and Law No.84 / 2016 "On the transitional re-evaluation of judges and prosecutors in the Republic of Albania". The purpose of this law is the transitional re-evaluation of judges and prosecutors (subjects of re-evaluation or assessee's) in the Republic of Albania.
The Commission evaluates the cases of the assessees organised in 4 adjudication panels composed of 3 members each, based on three criteria:
(a) Asset assessment;
(b) Background assessment, and
(c) Proficiency assessment.

*Commission's activity [1] for the period January-December*
The overall number of decisions delivered by the Commission is **92 decisions**:

i) 42 decisions on confirmation in duty of 20 judges and 18 prosecutors and 4 legal advisors/candidates for magistrate
ii) 35 decisions on dismissal from office of 22 judges 12 prosecutors and one legal advisor in Administrative Court of Tirana/candidate for magistrate
iii) 7 decisions on termination of the process for 4 judges, 2 prosecutors, 1 ex-legal advisor in Constitutional Court;
iv) 8 decisions on cessation of the process for 3 judges, 1 prosecutor and 4 legal advisors of High Court of Justice.

**Appeal Chamber**

The Appeal Chamber (AC) exercises its functions pursuant to Article 179/b, Annex to the Constitution of the Republic of Albania, Law no. 84/2016"On the transitional re-evaluation of judges and prosecutors in the Republic of Albania", Regulation "On the activity of the Appeal Chamber of the Constitutional Court", and all other normative bylaws adopted by the Meeting of Judges (nine internal regulations published at the AC website, www.kpa.al).

The Appeal Chamber continues to carry out its activity to the purpose of meeting its legal competencies in guaranteeing the functioning of the rule of law, independence of the justice system, as well as restoring public trust in the institutions of this system.

In response to the needs of the institution, pursuant to Law no. 84/2016 "On the transitional re-evaluation of judges and prosecutors in the Republic of Albania", and Decision of Parliament no.92/2017 "On the approval of the organizational structure, personnel and classification of salaries of the AC staff members", amended by decision no. 101/2018 "On some additions and amendments to the Decision of Parliament no. 92/2017 "*On the approval of the organizational structure, personnel and classification of salaries of the AC staff members*", the recruitment process is ongoing on filling in the vacancies and additions to the structure.

The Appeal Chamber exercises its function in the re-evaluation process of judges and prosecutors after the filing of the appeal by the assessees or Public Commissioner against the Independent Qualification Commission decisions.

**Actually, 40 (forty) cases** under re-evaluation jurisdiction are registered with the AC until 31.12.2018, of which 12 (twelve) cases are already concluded, 3 (three) are being adjudicated (sessions are scheduled to be held on January 9, 15 and 31) and 25 (twenty-five) are under preparation for adjudication.
With regard to concluded cases, the Appeal Chamber has decided:

i) To uphold the IQC decisions – 8 decisions
ii) To modify the IQC decisions, with regard to the content of the enactment clause on the prohibition of the assessee to be appointed judge or prosecutor at any level, HCJ or HPC member, High Inspector of Justice or General Prosecutor for a time period of 15-years – 2 decisions; to modify the IQC decision: dismissal from office of the assessee – 1 decision.
iii) Dismissal of the review of the case due to the waiver of the appeal by the appellant - 1 decision

Likewise, 2 (two) decisions under disciplinary jurisdiction have been made.

Public participation in the submission/denunciation of facts is set forth in Article 53 of Law No.84/2016, according to which, each person who becomes aware of facts or circumstances which might constitute evidence related to the re-evaluation criteria has the right to inform directly the re-evaluation institutions. In this framework, until December 31, 2018, 136 denunciations are recorded with the AC public denunciations register. The denouncers have received official responses related to their submissions with the AC.

**The Institution of Public Commissioners**

Public Commissioners Institution (PC) has been established and operates under Article 179 / b and the Annex of the Constitution in the Republic of Albania and Law No. 84/2016, "On the Transitional Re-evaluation of Judges and Prosecutors in the Republic of Albania" as a body of the transitional re-evaluation system of judges and prosecutors, with a view to guaranteeing and functioning the rule of law and Independence in the justice system, as well as the reinstatement of public confidence in the institutions of this system.
Public Commissioners Institution exercises its functions as a constitutional independent and impartial institution based on the principles of equality under the law, of the constitutionality, legality,

proportionality and other principles guaranteeing the right of the subjects of re-evaluation for a regular legal process. Public Commissioners Institution guaranties the confidentially of information and the protection of personal data.

Public Commissioners represent the public interest throughout the Justice Reform process, guaranteeing the functioning of the Rule of Law and the Independence of the Judiciary, and restoring public confidence in the institutions of the justice system.

The Institution of Public Commissioners exercises these competencies:

a. Appeal to the Appeal Chamber the decisions of the Independent Qualification Commission, within 15 days after the notification (under Article 63 of Law No. 84/2016).

b. Prepares a written report on the reasons of refusing recommendations from The International Monitoring Mission (IMO) to submit a complaint to the Appeal Chamber (under constitutional annex, Section B "International Monitoring Operation").

c. Approves rules On the Activities of Public Commissioners Institution. (Under Article 69/3 of Law No. 84/2016).

**Statistics**

The Institution of Public Commissioners has reviewed 73 decisions. 16 decisions have been appealed to the Appeal Chamber. For 57 decisions, Public Commissioners have decided not to appeal. In the ongoing process are 4 decisions.

Based on Article 53 of Law No. 84/2016 "On the Transitional re-evaluation of Judges and Prosecutors in the Republic of Albania", Public Commissioners Institution have recorded 71 denunciations from the public.

### 4.2. Summary of reform measures

The Economic Reform Programme for the short-term 2019-2021, includes 20 reform measures. Many of the reform measures are rolled over from the previous ERP, while a few are newly added for this cycle. These reform measures encapsulate some of the priorities of the incumbent government ranging from energy market liberalisation, diversification of energy sources, transport, broadband connectivity, land consolidation and defragmentation, businesses environment, trade, VET, water and wastewater sector, employment, and social inclusion. Below are listed the reform measures that are described in detail in the following section (4.3) under each specific thematic area.

Reform measure 01: Further liberalisation of the energy market
Reform measure 02: Diversification of energy sources
Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana
Reform measure 04: Defragmentation and consolidation of agricultural land
Reform measure 05: Reform on the Water and Waste Water Sector
Reform measure 06: Property tax reform and establishment of a fiscal cadastre
Reform measure 07: Reduce regulatory burden to businesses
Reform measure 08: Reduce red tape and increase the efficiency of the institutions offering services to citizens and entrepreneurs
Reform measure 09: Effective implementation of the National Plan to reduce the level of NPL in the banking system
Reform measure 10: Providing a single and transparent investment legal regime in the country
Reform measure 11: Improve institutional capacity of the research and innovation system
Reform measure 12: Development of the broadband infrastructure for digital economy
Reform measure 13: Facilitate trade and reach greater synergy in the implementation of national trade facilitation measures and MAP REA
Reform measure 14: Finalisation of the pre-university curricular reform, training and hiring of teachers
Reform measure 15: Inclusive education
Reform measure 16: Expanding adoption of digital skills to schools

Reform measure 17: Modernisation of the pre-school education system financing
Reform measure 18: Improve the quality and coverage of VET while ensuring linkages with the labour market
Reform measure 19: Modernise public employment services, increase employment of women, youth and vulnerable people
Reform measure 20: Strengthening social protection, and social inclusion measures

Following is the status of implementation of the Policy Guidance from the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey, May 2018.

**1. Introduce further fiscal consolidation measures with a view to meeting the indicated medium-term target of reducing public debt to below 60% of GDP in 2021.**

In order to achieve the respective target, Government of Albania is engaged to respect the fiscal principles and rule introduced in Organic Budget Law (OBL). According to article no. 63 of the OBL, for the first time, the application of the requirements for fiscal principles (Article 4.1), and the control of budget execution in the election years (Article 4.3) are included in the Annual Budget Execution Report, Macroeconomic and Fiscal Situation 2017. Regarding the effectiveness of the fiscal rule in the OBL related to debt reduction during 2017, it resulted to be in fully compliance since the level of actual debt for 2017 (according to the figures available up to this moment of drafting this report) results in 70% of GDP. This consists in a decrease of about 2.4 percentage points of total public debt from the level of 72.4% in 2016.

The fiscal policy for the medium term 2019-2021 will be clearly oriented towards fiscal consolidation, while providing an optimal level of investment of about 5 percent of GDP on average. Fiscal consolidation and the reduction of public debt are essential for reducing macroeconomic risks, which hinder economic growth and cause macroeconomic instability. The fiscal policy objectives in MFF 2019-2021 are in full compliance with the fiscal principles and rules of the OBL. This fiscal framework targets a total fiscal deficit of 1.7 percent of GDP for 2019, from 2.0 percent programmed for 2018; 1.2 percent of GDP in 2020; and 0.5 percent in 2021. At the same time, it is continuously pursuing a positive and growing primary balance for the years 2019-2021, respectively 1 percent in 2019 from 0.6 percent targeted in the 2018 budget; 1.5 percent in 2020 and 2.2 percent in 2021. In addition, the current balance, i.e. the difference between public investment and annual deficit (borrowing), is targeted at high levels and gradually increasing over the medium term. As a matter of fact, the current balance in 2019 is targeted at 3.3 percent of GDP, as much as targeting 2018; it is further targeted at an increase of 3.7 percent in 2020 and 4.3 percent in 2021. This fiscal consolidation aims to keep the level of public debt as a ratio to GDP continue to be the safe downward trajectory launched since 2016. Public debt is expected to fall about 66.4 percent of GDP in 2019, 63.5 percent in 2020 and further to 59.9 percent in 2021. At the same time, this fiscal framework accommodates budget policy to support economic growth and to offset the austerity effects of fiscal consolidation. Public investment in the short and medium term is envisaged to hold about 5 percent of GDP, which is considered optimal to feed aggregate demand in the short term and to shift potential economic growth to a higher level in the medium and long run.

**2. Support fiscal consolidation by (i) strengthening tax administration further; (ii) broadening the tax base and avoiding new tax exemptions; (iii) fully implementing the valuation-based property tax; and (iv) ensuring that new Public-Private Partnerships are only contracted on the basis of solid cost-benefit analyses and fiscal risk assessments.**

Regarding second recommendation Albania has progressed in addressing the implementation of valuation-based property tax. Early in 2018, a project initiated to establish the national fiscal cadastre. Starting from April 2018 and ongoing, the majority of Municipalities have approved the necessary legal acts (Decisions of the Municipality Council) for implementing the property tax on buildings pursuant to the decisions of the Council of Ministers no.132[15]. The methodology separates the properties by the purpose of use in units that are used for residential purposes and those used for economic activities. In this general division framework, almost all municipalities have implemented the necessary changes in accordance with the methodology in order to calculate and collect the tax obligation for the properties used for economic activities, however this phenomenon has not been as widely spread in the case of residential units. Some of the Municipalities, who have priorities the implementation and collections of the property tax for both residential properties as well as those used for economical purposes, are Municipalities of Korçë, Lushnje Sarandë, Vlorë, Durrës, Vorë, Pogradec etc. However, for technical reasons some municipalities still have not implemented the methodology regarding residential units. Part of the project is to implement the fiscal zone value based property tax on buildings, which is foreseen to be fully implemented in two upcoming years, starting from January 2019. During 2018, municipalities have undertaken the process of defining the reference price for specific zones.

**3. Conduct monetary policy in line with reaching the inflation target. Increase the transparency of monetary policy communication by publishing time series on core inflation and inflation expectations. Implement the remaining measures of the NPL resolution strategy, also with a view to addressing factors hampering access to finance for corporates. Based on regular analysis of relevant indicators and impact assessment, explore other measures in line with the Memorandum of Cooperation to increase the use of the national currency at all levels.**

**Conduct monetary policy in line with reaching the inflation target.**

The Bank of Albania conducts monetary policy with the exclusive goal of ensuring a stable path of inflation to target within the medium term. The decision-making process regularly takes into account the effectiveness in time of monetary policy and strives to maximise its overall efficiency. To support the convergence of inflation to the target, the Bank of Albania has pursued an accommodative monetary policy. The accommodative stance strengthened in June as the Supervisory Council of the Bank of Albania decided to lower the base interest rate by further 25 bps to 1.00% and to initiate FX market interventions with the sole purpose of safeguarding the fulfilment of its inflation target in the medium term. The rapid appreciation of the domestic currency towards the Euro during the first half of 2018, estimated to have diverted from its medium to long term trend appreciation introduced a serious challenge to monetary policy. In-depth analyses evaluated that this exchange rate shock, while temporary, would decrease inflationary pressures and hamper the steady path of inflation to target. As such, the BoA decided to use FX market interventions to stabilise the domestic currency as a temporary monetary policy tool auxiliary to standard monetary policy operations. The use of this instrument complemented the lowering of the policy rate close to its lower effective bound. The Bank of Albania expects inflation to return to the 3 per cent target over the medium term. The monetary policy will remain accommodative in the foreseeable future to support the sustainable convergence of inflation to target.

**Increase the transparency of monetary policy communication by publishing time series on core inflation and inflation expectations.**

The Bank of Albania communicates regularly and in a timely manner its decisions on monetary policy. Communication is conducted through Governor’s Press Conferences immediately after a Supervisory Council decision on monetary policy. In addition, in these Conferences, the Bank of Albania provides forward guidance to the markets on the most likely near future path of the base interest rate.

The published Monetary Policy Report as well as press conferences make reference to the developments of core inflation and inflation expectations and to their importance for the fulfilment of the inflation target. The Bank of Albania has its own internal estimation of core inflation that follows international best practices and established methodologies (published). With regards to inflation expectations, the Bank of Albania conducts monthly surveys on inflation expectations for

[15] CMD “On Property Tax Methodology”

specific groups of economic agents (financial agents, consumers and businesses). The results of these surveys are referred to in the Monetary Policy Reports.

We intend to publish time series of both core inflation and inflation expectations. Currently, we are looking at the best possible way to make them public, aiming to make a distinction between official statistics and processed data that are used for analysis and forecasts. This is important for the communication of our monetary policy.

**Implement the remaining measures of the NPL resolution strategy, also with a view to addressing factors hampering access to finance for corporates.**

The Action Plan (AP) of NPLs in the banking system is a set of actions (legislative changes and other implementing activities) composed of 12 measures, with the aim to reduce the level of Non-Performing Loans.

Actions foreseen in the Action Plan related with the amendments to the Civil Code, the Albanian Parliament approved in 2016 the Civil Procedures Code, Bankruptcy Law and Securing Charges Law. The implementation of different actions foreseen in the national action plan including the legislative changes is expected to contribute further in medium term in the reduction of non-performing loans stock in the near future.

As already reported, regarding the measured assigned to Bank of Albania, several changes are finalised that consisted in the clarification of the loan write-offs from the balance-sheet of the banks; the review of the supervisory treatment of repossessed collaterals taken into the ownership as a result of judicial processes; the review of the regulatory framework to facilitate the sale of NPLs; improvements in the credit registry with inputs of the banking system with loans in legal process; and recently, together with Ministry of Finance, BoA warned all banks to strictly comply with the legal obligation on the usage of tax declarations in order to avoid penalties and sanctions.

With regard of lending based on tax declarations, such requirement has been applicable for the banks' large borrowers since 2014. Based on the Bank of Albania Regulation No. 10, dated 26.02.2014 "On the risk management from large exposures of banks", as amended article 11, paragraph 6, it is explicitly foreseen "*... Banks shall analyse the risk of exposure to large borrowers from the moment that the exposure was created and onward, being based on certified/audited financial statements*". Starting from the beginning of 2018, the application of such requirement has been extended to all the borrowers. For this purpose, several meetings have been organized with all commercial banks, Ministry of Finance and the Albanian Association of Banks. In January 2018, the Governor of the Bank of Albania sent a warning letter to all the banks to draw banks' attention on their legal obligation to use fiscal financial statement and data in their credit approval processes.

Extending such requirement provides a level playing field to all borrowers, and in long term is expected to provide benefits in terms of reduced collateral requirements, due to more accurate and reliable financial statements).

In mid-2018, BoA with the support of international experts from World Bank and the IMF permanent adviser finalized the so-called "Tirana Approach", that currently is under consultation with the banking industry. The newly drafted regulation *"On out-of-court treatment from banks, of borrowers in financial difficulties"* complement the current in –force out-of-court guidelines with Inter Creditor Agreement, Creditor-Debtor Agreement and will have in focus solving out only nonperforming multi-lender exposures exceeding a certain threshold. In other words, it will be a framework primarily addressing the NPL of big borrowers and as such will contribute to improve the position of corporates in front place to increase the opportunities for further credit as well as banks potential to provide more credit to material borrowers and the economy at large. This regulation is designed in the spirit of retribution for the banks which do not want to take the benefit if they sign off the framework agreement, as well for the others which by signing off will not be complying with all the requirements of the framework agreement. Such drafted framework, already published in BoA website[16] for consultation is expected to be approved soon from the Supervisory Council.

[16] https://www.bankofalbania.org/Mbikeqyrja/Kuadri_Rregullativ_Mbikeqyres/Akte_ne_proces_konsultimi/

Lastly, the activity on the "Credit Registry" has been postponed to more reasonable timing in 2019, taking into the consideration the preliminary preparation needed.
The first part of recommendations *"On the improvements of credit registry",* as one of the BoA's responsibilities, has been accomplished. Regarding the second part of the recommendations on Credit Registry in order to facilitate and to establish the appropriate infrastructure in the context of Credit scoring, assistance from European Bank for Reconstruction and Development (EBRD) is provided. Albanian Association of Banks will be supported by a consulting company to prepare a feasibility study and cooperate with the stakeholders. In March 2017, a meeting was held with representatives of the Banking Association to present a menu of solutions/models and discuss on the best model. A final decision is expected by the banks regarding the proposed business model and their commitment. The practices and the experiences of other countries do no support the involvement of central banks in providing credit scoring, and for that reason even in Albania to determine the most appropriate business model, EBRD is directly cooperating with the Albanian Association of Banks, while BoA remain committed to facilitate and monitor such process.
As of June 2018 the ratio of non-performing loans decreased to 13.27 per cent from the level of 15.58 per cent in June 2017. The reduction in the NPLs has been driven by the write-offs and non-performing loans recoveries. Meanwhile during 2018 BoA will remain focused on:

- enhanced communication with banks on write-offs and restructuring of multi-lender credit facilities;
- the periodic submission to BoA of individual banks' Recovery and Resolution Plans for large borrowers as defined in the relevant regulatory framework;
- formalization by banks of strategies for reducing non-performing loans, as well as the projections for their impact on their budget accompanied by the requirement for periodic reporting to BoA.

**Based on regular analysis of relevant indicators and impact assessment, explore other measures in line with the Memorandum of Cooperation to increase the use of the national currency at all levels**

The presence of euroziation in the financial system and in the larger context in the economy has an important impact on the effectiveness of economic policies.
In terms of macroeconomic policies, a high level of euroization leads to the reduction of the monetary policy effectiveness, limits the role that of the free exchange rate as an automatic stabilizer in the case of macroeconomic shocks, given the high sensitivity of economic entities to large exchange rate volatility, and undermines the fiscal policy effectiveness through the possible increase in the cost of debt service and unwanted change of its structure. Also, the high level of euroization usually comes with a cost for the central bank in the form of opportunity cost for the maintenance of a relatively high level of foreign exchange reserves and for the loss from seignior age, which is associated with the replacement of the domestic currency by the foreign currency.
In terms of financial stability, euroization increases the exposure of the financial system and economic operators to unfavourable developments in the exchange rate and to stress situations of foreign currency liquidity.
The process for expanding the use of the national currency in the financial system and in the economy (de-euroization) is not an objective only for the financial system, as the foreign currency is widely used by the public in various transactions. Thus, the de-euroization approach should be inclusive, so that other local authorities can identify and undertake certain measures that encourage the public and economic agents to increase the use of the national currency for their transactions.
For this reason, according to the Memorandum of Cooperation the Bank of Albania, the Ministry of Finance and Economy and the Financial Supervision Authority are committed to identify, in the respective areas of competence and in a harmonized manner, the necessary actions for a more general de-euroization, including communication with the public.
That Memorandum sets out also the monitoring mechanisms that regularly assess and report on the impact of the undertaken measures on various financial and economic indicators.

This section presents the Bank of Albania's the package of actions within the de-euroization strategy framework, as it was approved on 7 February 2018 by the Supervisory Council of the Bank of Albania.
The package includes:
- the adoption of a Policy document on increasing the use of the national currency in the activity of the banking sector and non-banking financial institutions that are supervised and regulated by the Bank of Albania, as well as;
- the approval of regulatory changes to implement measures that will be undertaken this year in accordance with the said policy.
More concretely, the regulatory changes that implement the de-euroization measures include:
a) increasing the required reserve rate for foreign currency liabilities at 12.5% (from 10%) and its decrease for liabilities in lek down to 7.5% (from 10%). For banks, in which the foreign currency liabilities account for more than 50% of total liabilities, only for the value of the positive change, the required reserve ratio in foreign currency is increased to 20%.
b) increasing the minimum regulatory requirement for liquid assets in foreign currency, to 20% of short-term liabilities (from 15%). For liquid assets in lek, the ratio level will remain 15%.
c) raising the awareness of borrowers about the risks associated with foreign currency borrowing. For this purpose, banks are required to propose to the borrower an alternative loan in lek and to accompany the product with a concrete example on how the loan instalment changes in case of a supposed exchange rate depreciation. In addition, banks are encouraged to address the possibility of mitigating the exchange rate risk for the foreign currency borrower in the event that this risk is identified and is accepted by the terms of the contract between the parties.
The instruments adopted in this package have entered into force, gradually, by June 2018.
In the framework of the de-euroization package and for assessing the impact of the measures undertaken, the Bank of Albania is committed to publish twice a year a report, which monitors the performance of some financial indicators that reflect the levels of euroization. So far, 2 reports have been published. Depending on the performance of the indicators, the above measures may be supplemented with other measures in the future.
To summarize, the steps taken so far in terms of the de-euroization strategy[17]:

- Memorandum of Cooperation (inter institutional) on increasing the use of the national currency in the Albanian financial system and economy
- BoA's Policy "On increasing the use of the national currency in the activity of banking sector and financial system";
- BoA's measures approved on February 7, 2018 which entered in force by June 2018;
  BoA's Report on the performance of the indicators that will be monitored by the Bank of Albania in the framework of the de-euroization process (Albanian only).

**4. Ensure effective liberalisation of the energy market and functioning of the power exchange. Adopt the legal provisions to effectively implement the national energy strategy and further broaden the energy supply mix, focussing on incentivising energy efficiency and renewable energy production beyond hydropower.**

*The national energy strategy*

Decision of Council of Ministers No. 480 of 31.07.2018 "On the approval of national energy strategy for the period 2018 – 2030" was approved. The National Energy Strategy 2018 – 2030, was published in the Official Gazette No 119 of 9.08.2018, and entered into force upon its publication.

*Establishment of Albanian Power Exchange*

The Law No 7/2018 of 15.02.2018 "On some amendments and addenda to Law No 43/2015 of 30.04.2015 'On Power Sector" was adopted by the Albanian Parliament. The Law No 7/2018 of

[17] https://www.bankofalbania.org/Financial_Stability/De-euroization_Package/

15.02.2018 was published in the Official Gazette No 32 of 9.03.2018 entered into force on 25.03.2018.

The amendments introduced by the law remove the legal obstacles for the establishment of the Albanian Power Exchange. The setup of the Albanian Power Exchange aims to fulfil the obligations of the Republic of Albania as a member of the Energy Community and to implement the Government's policies for the liberalisation of electricity market and the creation of an electricity trading market. In this view, these amendments introduce new deadlines for the setup of the Power Exchange in Albania. Within six months after the publication of the Law, the Council of Ministers will approve a decision on the set up of the APEX Company and the conditions for its establishment. This requires the approval of the decision of Council of Ministers within September 2018.

The Albanian Transmission System Operator (OST S.A.) and the Ministry of Infrastructure and Energy are closely collaborating to prepare the draft Decision of Council of Ministers, with the support of an external consultant. Currently an agreement is reached on the draft Decision of Council of Ministers and the "Shareholders Agreement" by (stakeholders) OST S.A., Kosovo's Transmission, System and Market Operator J.S.C. (KOSTT), International Finance Corporation (IFC) and Albanian Ministry of Infrastructure and Energy. The working group is working to finalise these legal act before submitting them for comments to line ministries.

*Liberalisation of the electricity market (customers in the free market)*

As was provided in Article 3 of the Law No 7/2018 of 15.02.2018 "On some amendments and addenda to Law No 43/2015 of 30.04.2015 'On Power Sector", the final customer supplied with electricity by the supplier of last resort and who, as foreseen in the Article 109 of the Law No 43/2015 of 30.04.2015, enters for the first time in the liberalised market, is obliged to sign a supply contract with a new supplier within two years from the start of the supply contract from the supplier of last resort. At the end of this period, the system operator interrupts the power supply to this customer.

One important element to note is that this amendment (the period of two years) takes into account the lack of customer experience to operate into the liberalised market, and gives to the customers the necessary time to adapt to the transition from the regulated market to the liberalised market.

Starting from 1 January 2018, all the customers connected to 35 kV should be supplied in the unregulated market, but until now only a limited number of customers (6 – 10 customers) connected to the 35 kV grid have chosen to be supplied in the unregulated market. According to these amendments of the Law No 43/2015 of 30.04.2015, all the customers connected to the 35 kV grid, by the end of 2019 will not be supplied by the OSHEE S.A. as a Last Resort Supplier.

*Expansion of energy sources (energy mix)*

The Decision of Council of Ministers No 179 of 28.03.2018 "On the approval of the National Renewable Energy Action Plan (NREAP) 2018 – 2020" was approved. The National Renewable Energy Action Plan (NREAP) 2018 – 2020 is based on the Article 5 of the Law No 7/2017 of 2.02.2017 "On promotion of the use of energy from renewable sources".

The National Renewable Energy Action Plan (NREAP) 2018 – 2020, foresees an increase of the consumed electricity generated from renewable sources, with at least 172 ktoe (2,044 GWh) by 2020. NREAP 2018 – 2020, also foresees the expansion of installed electricity generators based on renewable sources to 798 MW. The NREAP 2018 – 2020 takes into consideration the progress in the deployment of these technologies towards these targets, and adjusts them accordingly to ensure the achievement of the national target of RES consumption (38%) in 2020.

**5. Further strengthen the process of cadastral, land and property registration, including clarification on land ownership, with a special emphasis on de-fragmentation and consolidation of agricultural land, and swift case handling in case of court procedures. Reinforce measures to finalise the property restitution and compensation process.**

The land reform in the early 1990s created a structure of small, fragmented areas. According to the Statistical Yearbook of Albania, there are 352,315 family farms with an average land size per family around 1.26 Ha, divided in 4.7 parcels, with an average parcel size of 0.27 Ha. Approximately 46% of farms are under 1 Ha in size, while 86% are under 2 Ha. The partition of the land in parcels poses challenges for the production and selling of agricultural products, and has made nation-wide adoption and use of automation in the sector difficult. In the past, but also nowadays there has been a shrinking of the total agricultural land as a result of illegal constructions, urban areas becoming bigger at the expense of agricultural land.

Limiting factors for land consolidation and increasing farm size include the lack of legal basis for land consolidation, high transaction costs, and difficulties in registering agricultural land (discrepancies between maps and verbal notifications on registered titles) generated by the Initial Registration Program.

In 2017, there have been noticeable improvements to land consolidation with important effects on property rights and finance. Land consolidation remains a priority of the GoA, which is collaborating with the 61 municipalities of the country to monitor and support the finalisation of legal procedures for the transfer of ownership of agricultural land to those owners who do not own property titles in accordance to the criteria and procedures specified in the current legislation in force.

The first phase entails the finalisation of the completion of the Acts of Ownership of Agricultural Land (AOAL), which for many reasons both technical and legal, such as family ownership on the agricultural land, since the land was not divided to each family member, every possible transaction necessitates the approval of everyone, inconsistencies between the property title document issued during the land distribution of 1991 and the initial registration in 1996, as well as the problems for the agricultural land registration, incompatibility between the maps and the verbal notification on the registered deeds from the Initial Registration Program, due to negligence, economic reasons, the AOALs have not been registered in IPRO.

As a result, the GoA has undertaken the initiative whereby the land is one of the priorities and in collaboration with the municipalities across the country is working on finalising the process for transferring ownership of agricultural land to beneficiaries, in the territories of former agricultural enterprises and in former agricultural cooperatives by means of:

- Collection and processing of all the data on the AOAL registration process;
- Identification and analysing of all issues faced by municipalities in this process;
- Cooperation with all state institutions that are involved in this process
- Providing legal support to municipalities
- Identification of benefits of registering of ATOLs, throughout the pilot projects
- Drafting of manuals and guidelines of best practices
- Conducting training of the staff of municipalities involved in the process
- Coordination with the municipalities, IPRO and the local IPRO offices in the municipalities.

Within December 2018, is foreseen the finalisation of the AOALs for nearly 20000 agricultural families. The process for the registration of AOALs has continued throughout 2018 and will continue even after 2018. This process will ensure the quality of land registration to improve financial approach and the creation of the land consolidation basis.

Finalisation of transfer of ownership of agricultural land and the registration of property titles in IPRO ensures the achievement of the main objective of the Strategy for the Consolidation of Agricultural Land according to the concrete measures defined in National Strategy for Land Consolidation adopted via DCM no. 700/2016.

**6. Ensure sufficient capacities for the implementation of employment policies, in particular for youth and women, and improve linkages between active and passive employment measures. Address undeclared work, including by strengthening the labour inspectorate. Support the development of basic education and increase the investment in initial teacher training.**

One of the measures taken to activate the persons in the system of economic aid and the link between active and passive employment measures is a new program of employment promotion, which is implemented for the first time in 2018. DCM no. 162, dated 21.3.2018 "ON THE PAYMENT OF PARTICIPATION IN PROFESSIONAL TRAINING COURSES", which aims, within the framework of government orientation for the activation of economic aid beneficiaries and persons deriving from this scheme, as a result of the implementation of the reform economic inclusion, their involvement in active labour market programs such as vocational training, employment promotion programs, and employment mediation. The decision enables inclusion in their free vocational training courses at vocational training centres and during the course participation, they receive a monthly fee. Given that the category of these persons needs to be treated professionally in order to gain a job in the labour market, as about 80% of them have initial education level, and the fact that it comes to the former beneficiaries of economic aid is envisaged that during the attendance of free courses in public vocational training centres, they must be paid a fee for participation in the course. The amount of payment is determined to be 50% of the unemployment benefits (currently 1200 ALL) and is 6000 ALL per month for each month of the course attendance..

4.3. Analysis by area and structural reform measures

### 4.3.1. Energy and transport market reform

1. *Analysis of main obstacles*

The reform of the energy sector in Albania is in progress, including the liberalization of the energy market, and diversification of energy sources (gasification) in accordance with the commitments under the SAA and the Energy Community Treaty, in the frame of the Third Energy Package.

The energy sector is one of the strategic sectors and a priority of the Albanian Government given the diversity of energy resources (water, wind, solar, oil, gas, etc.) that our country possesses, which so far are not fully exploited. Referring to the National Energy Strategy 2018 – 2030[18] energy has the potential of being a sustainable source of growth for the country over the short to medium and long-term. In addition, it also has the potential of increasing the value of energy produced in our country and decreasing energy imports. 100% of the Local Electrical Power is produced from Hydro Sources, while approximately 50% of Albania's hydropower potential is utilised. Electricity production is highly dependent on the volatility of the water flow in the Drini river cascade. Work continues to increase manufacturing capacity in waters through the construction of Hydro Power Plants given via concessions, and measures to support the growth of renewable energy capacity and to exploit the significant potential of renewable energy resources, mainly water, biomass, wind and solar.

However, the big potentials of our country and the performance improvement of performance of the energy sector during the last two years, the energy imports remain high. We intend increasing domestic production and reducing the level of technical and non-technical losses of electricity in the distribution network that has direct impact in reducing the amount of energy imported for meeting the demand for electricity in the country.

Albania has taken a number of steps to include in its energy policy the requirements of the EU Directives for the establishment and development of the internal energy market and the promotion of production and consumption of renewable energy sources. One of the main objectives was to diversify its renewable energy sources to achieve political and macroeconomic security of energy production.

The GoA is working on the reform of the energy sector in the context of liberalisation of the energy market, and diversification of the energy sources:

- The Law No 7/2018[19] removes the legal obstacles for the establishment of the Albanian Power Exchange. These amendments introduce new deadlines for the setup of the Power Exchange in Albania.
- Albania has made progress towards eliminating high fiscal risks in the electricity sector by reducing distribution losses and by improving bill collection rate, due to investments in the distribution grid, on-going controls on illegal interference in the metering system, and the provision of payment scheme for accumulated debts.

[18] Approved by DCM no. 480, 31.07.2018

[19] Law no 7/2018 of 15.02.2018 "On some amendments and addenda to Law No 43/2015 of 30.04.2015 'On Power Sector"

In the supply of energy products, according to the country's Energy Balance (referred to 2016), electricity accounts for 28.8% while 59.5% consists of fuel products, mainly oil and its by-products, It is considered a strategic necessity to diversify energy supply sources by means of Albania's connection with regional gas networks, and the gasification of the country.

Reform in the energy sector is in rapid progress including the liberalization of energy trade in line with the requirements and objectives under the Third Energy Package of the EU.

Considering the obligation for implementation of the Regulation (EU) no 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision No 1364/2006/EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009, as regard the interconnection of the Albanian energy infrastructure with the regional and European ones, it was drafted and approved by the Council of Ministers the decision "On the approval of practices for promoting the common regional investments in the energy sector infrastructure"[20].

Currently, "Albgaz sha" has been certified by the Energy Regulatory Entity (ERE) to operate as the Gas Transmission Operator; moreover, ERE has approved the temporary tariffs that will be applied by "Albgaz sha" for gas transmission[21].

Meanwhile, ERE has adopted Decision No. 187, dated 10.11.2017, of the Board of ERE "On the licensing of "Albgaz sh.a." company in the natural gas distribution activity" and Decision No. 188, dated 10.11.2017, of the Board of ERE "On the licensing of Albgaz s.a. in the natural gas transmission activity".

2. *Reform measures*

**Reform measure 01: Further liberalisation of the energy market**

In line with the measures introduced in the previous ERP, and in view of the already achieved milestones, for the ERP 2019-2021 reporting period the focus will be on:

Increasing competition between energy suppliers by enhancing efficiency and productivity gains, leading to lower production costs as well as lower electricity prices, through legal and regulatory initiatives and increasing the security of supply.

The amendments introduced by Law No 7/2018 of 15.02.2018 remove the legal obstacles for the establishment of the Albanian Power Exchange. The set-up of the Albanian Power Exchange aims to fulfil the obligations of the Republic of Albania as a member of the Energy Community and to implement the Government's policies for the liberalisation of electricity market and the creation of an electricity trading market.

- Liberalisation of the electricity market (customers in the free market)
    - As was provided in Article 3 of the Law No 7/2018 of 15.02.2018 "On some amendments and addenda to Law No 43/2015 of 30.04.2015 'On Power Sector", the final customer supplied with electricity by the supplier of last resort and who, as foreseen in the Article 109 of the Law No 43/2015 of 30.04.2015, enters for the first time in the liberalised market, is obliged to sign a supply contract with a new supplier within two years from the start of the supply contract from the supplier of last resort. At the end of this period, the system operator interrupts the power supply to this customer.
    - One important element to note is that this amendment (the period of two years) takes into account the lack of customer experience to operate into the liberalised market, and gives to the customers the necessary time to adapt to the transition from the regulated market to the liberalised market.
    - Starting from 1 January 2018, all the customers connected to 35 kV should be supplied in the unregulated market, but until now only a limited number of customers (6 – 10 customers) connected to the 35 kV grid have chosen to be supplied in the unregulated market. According to these amendments of the Law No 43/2015, all the consumers connected to the 35 kV grid,

[20] DCM no. 685, 14.11.2018

[21] Decision no. 179, dated 08.11.2017, of the Board of ERE, "On Certification of the "Natural Gas Combined Operator" Company, Albgaz sh.a."

by the end of 2019, will not be supplied by OSHEE S.A. as a Last Resort Supplier.

- The unbundling of the distribution activity from the supply.

The legal and functional unbundling of Distribution System Operator (OSHEE S.A.), which seeks to unbundle the distribution from the supply activity, as provided for in Article 72 of Law No 43/2015 of 30.04.2015 "On Power Sector" had to be carried out within December 2017. To this end, OSHEE S.A. prepared the unbundling plan and selected COM METODI S.P.A as a consulting company for this process. The unbundling model was approved by the Supervisory Council of OSHEE S.A. via Decision No. 65 of 19.12.2016 "On the approval of the corporate model" and also by the Minister of Energy and Industry in their capacity as the General Assembly of the Company.
By order of the Minister of Infrastructure and Energy[22] was ordered the creation by OSHEE S.A (the parent company) of the three controlled companies, with the aim of splitting the distribution activity, the universal service of supply and the sales activity in the free market of electricity.
According to Law no. 9901, dated 14.04.2008 "On Traders and Companies", amended, Law 43/2015 "On Power Sector", amended and the General Assembly Order no. 157, dated 12.02.2018 "On the creation of three companies controlled by the Electricity Distribution Operator", OSHEE S.A, in the capacity of the Founding Shareholder, has established three new companies controlled as follows:

- Universal Service Supplier S.A (FSHU), with the object of activity "Electricity supply of end-customers operating in the regulated market defined by the legislation in force". This company was established on 28.03.2018 and registered in the National Business Centre on 30.03.2018, with Unique Identification Number L81530016L.
- Free Market Supplier S.A (FTL), with the object of activity "Purchase and management of electricity and operation in the free market, etc.". This company was established on 28.03.2018 and registered in the National Business Centre on 30.03.2018, with Unique Identification Number L81530029T.
- Distribution System Operator S.A (OSSH), with the object of activity "Distribution of electricity, construction, operation and maintenance of the electricity distribution network for the supply of electricity to customers, connection of consumers and users of the electricity distribution network, installation and electricity measurement services, etc.". This company was established on 28.03.2018 and registered in the National Business Centre on 30.03.2018, with Unique Identification Number L81530018E. In compliance of the order of the Minister of Infrastructure and Energy (MIE) no. 157, dated 12.02.2018 "On the creation of three companies controlled by the Electricity Distribution Operator" the work is in progress for the functional unbundling of Distribution System Operator (OSHEE S.A.).

- Establishment of Albanian Power Exchange
  - Market Operator

DCM No. 519 of 13.07.2016 "On the approval of the Electricity Market Model" authorises the MIE and the Albanian TSO S.A. to prepare the necessary acts for the setup of the Albanian Power Exchange. MIE will decide within 31 December 2017, to start the operation of the Albanian Power Exchange, upon the fulfilment of legal, technical and regulatory steps, as stipulated by the Albanian Electricity Market Model.
To this purpose, a working group was established by order of the Minister of Infrastructure and Energy. The Working Group, based on the legal assessment of the experts and discussions of the meetings, concluded that the option identified to enable the setup of the Albanian Power Exchange, requires the amendment of certain provisions of Law No 43/2015 of 30.04.2015 "On Power Sector". To this purpose, The Law No 7/2018 of 15.02.2018 "On some amendments and addenda to Law No 43/2015 of 30.04.2015 'On Power Sector" was adopted by the Albanian Parliament. The Law No 7/2018 of 15.02.2018 was published in the Official Gazette No 32 of 9.03.2018 entered into force on 25.03.2018.
The amendments introduced by the law remove the legal obstacles for the establishment of the Albanian Power Exchange. The setup of the Albanian Power Exchange aims to fulfil the obligations

[22] Order no. 157 of 12.02.2018 "On the creation of three companies controlled by the Electricity Distribution Operator"

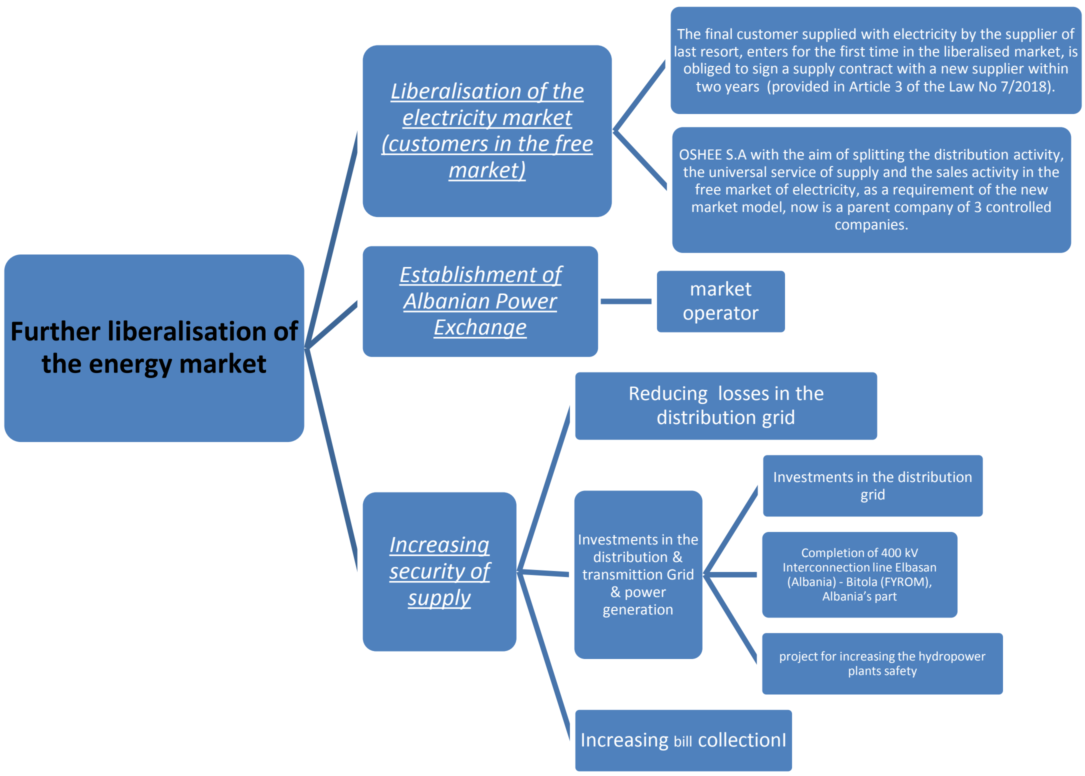
of the Republic of Albania as a member of the Energy Community and to implement the Government's policies for the liberalisation of electricity market and the creation of an electricity trading market.

In this view, these amendments introduce new deadlines for the setup of the Power Exchange in Albania. Within six months after the publication of the Law, the Council of Ministers will approve a decision on the set up of the APEX Company and the conditions for its establishment. This requires the approval of the decision of Council of Ministers within September 2018.

The Albanian Transmission System Operator (OST S.A.) and the Ministry of Infrastructure and Energy prepared the draft Decision of Council of Ministers, with the support of an external consultant. Currently an agreement is reached on the draft Decision of Council of Ministers and the "Shareholders Agreement" by (stakeholders) OST S.A., Kosovo's Transmission, System and Market Operator J.S.C. (KOSTT), International Finance Corporation (IFC) and Albanian Ministry of Infrastructure and Energy. Recently, the draft decision was submitted for comments to line ministries.

Security of supply

- Investments in the distribution/ transmission grid and generating system (Completion of the project in the transmission system. Construction of The 400 kV Interconnection line (Albania) - (FYROM) Activities planned 2019 - 2021 - Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 1 & Lot 2)
- Reducing distribution losses
- Bill Collection




*Activities planned*

➢ Liberalisation of the electricity market (customers in the free market

All the customers connected to the 35 kV grid, by the end of 2019 will not be supplied by the OSHEE S.A. as a Last Resort Supplier.

➢ The unbundling of the distribution activity from the supply.

According to Law no. 9901, dated 14.04.2008 "On Traders and Companies", amended, Law 43/2015 "On Power Sector", amended and the General Assembly Order no. 157, dated 12.02.2018 "On the creation of three companies controlled by the Electricity Distribution Operator", OSHEE S.A, in the capacity of the Founding Shareholder, has established three new companies controlled as follows:

- Universal Service Supplier S.A (FSHU),
- Free Market Supplier S.A (FTL),
- Distribution System Operator S.A (OSSH),

In compliance of the order of the Minister of Infrastructure and Energy (MIE) no. 157, dated 12.02.2018 "On the creation of three companies controlled by the Electricity Distribution Operator" the work is in progress for the functional unbundling of Distribution System Operator (OSHEE S.A.).

➢ Establishment of Albanian Power Exchange

The amendments introduced by Law No 7/2018 of 15.02.2018 introduce new deadlines for the setup of the Power Exchange in Albania. Within six months after the publication of the Law, the Council of Ministers will approve a decision on the set up of the APEX Company and the conditions for its establishment. This requires the approval of the decision of Council of Ministers within September 2018.

Recently, the draft decision was submitted for comments to line ministries.

A project on coupling the day-ahead markets of Albania and Kosovo is ongoing under the WB6 regional energy market connectivity programme.

On November 27, 2017, was signed in Korça (Albania) "The Memorandum of Understanding on cooperation for the establishment and operation of the Albanian Power Exchange between the Ministry of Infrastructure and Energy of the Republic of Albania and the Ministry of Economic Development of the Republic of Kosovo".

On February 07, 2018, took place in Pristina a meeting of Joint Working Group (Albania-Kosovo) regarding the coupling market, with representatives of Albanian Ministry of Infrastructure and Energy, Electricity Regulator Authority, Transmission System Operator, Albanian Power Generation, Distribution System Operator, USAID Albania, and Kosovo Ministry of Economic Development, Electricity Regulatory Office, Transmission System and Market Operator, Kosovo Power Generation, Kosovo Operator of Electricity Distribution and USAID Kosovo.

On May 4, 2018, was organized in Albania a meeting of the Legal Working Group of Albania and Kosovo regarding the provisions required in Albania & Kosovo Market Rules and Grid Code enabling Market Coupling.

In addition, on May 22, 2018 was organised a meeting of the Joint Working Group (Albania-Kosovo).

➢ Security of supply

2019

- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 1
- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 2

2020

- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 1
- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 2

2021

- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 1
- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 2

*Estimated cost of activities and source of financing*

For the reform **further liberalisation of the energy market**, there is no direct impact on the state budget but investments in the distribution/ transmission grid and power generation are defined in the development programmes of companies (KESH, OST and OSHEE). In support of this point, the estimated cost for the completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM), Albania's part - 70 million EUR *Financed EUR 50 million from KfW (loan), EUR 15 million from WBIF (grant) and EUR 5 million from OST sh.a (including VAT)*

*Expected impact on employment and gender*
This reform measure contributes to job employment and competitiveness and will also allow the decrease the cost of energy for consumers. This reform measure will indirectly contribute to job creation by ensuring reliable energy supply at reasonable price levels and therefore stimulating the general business environment and making the sector more attractive to investors. It is a gender-neutral reform measure.

*Expected impact on competitiveness*
Strengthens the interconnection links with the regional electricity network, creating conditions for trade exchanges and unrestricted transit of electricity in the region. The further liberalization of the energy market, which will lead to decentralization of the energy power system, will have direct positive impacts on competitiveness by enabling the participation of the private operators in the electricity market and will increase the quality of supply. This reform measure will increase considerably the investments and contribute to job employment and competitiveness and will also allow the decrease the cost of energy for consumers.

*Key performance indicators*
- Reduction of energy imports.
- Increase of national energy production capacity.
- Increase in investment in the network/grid.
- Decrease in technical and non-technical losses in the network.
- Increase bill collection

*Potential risks*
For the project "The 400 kV Interconnection line (Albania) - (FYROM)" specific obstacles may arise during the expropriation, procurement and licensing procedures necessary for implementation of the project and also technical impediments given the nature of the project (20%).
Lack of capacity and coordination among institutions (10%).
Delays in the adoption of sub-legal acts (5%).
Better monitoring, evaluation and coordination with all stakeholders through all stages of the project.
Raising relevance of the reform measure.

**Reform measure 02: Diversification of energy sources**

*(I) Diversification of energy sources through the promotion of production and consumption of energy from renewable sources*

Albania has taken a number of steps to include in its energy policy the requirements of the EU Directives for the establishment and development of the internal energy market and the promotion of production and consumption of energy from renewable energy sources. One of the main objectives was to diversify the renewable energy sources to achieve political and macroeconomic security of energy production.
The adoption of the Law No. 7/2017, has promoted and encouraged other sources of energy to start with pre-sale electricity contracts for generating works that are not subject to concession, thus proving for a diversified renewable energy resource policy. This is also due to the advancement on electricity production from renewable sources by technologies other than the one dominating domestic electricity production actually, with hydro resources only, as well as the rapid reduction of electricity generation costs from solar energy (PV) and wind (Aeolian), are globally the main sources of energy capacity increase in the wholesale market.

Hydropower resources now account for almost 98% of the country's energy production. Hydropower production fluctuates and is not equal throughout the year and, especially during 2017, has resulted in high energy imports, both in quantity and in prices.

The GoA is working on the reform of the energy sector in the context of diversification of the energy market. Thus far, a number of measures have been completed, as follows:

- The Law No 7/2017 of 02.02.2017 *"On promotion of the use of energy from renewable sources"* was adopted by the Albanian Parliament. The Law No 7/2017 of 2.02.2017 is partially aligned with the Directive 2009/28/EC of the European Parliament and of the Council of 23 April 2009 on the promotion of the use of energy from renewable sources and amending and subsequently repealing Directives 2001/77/EC and 2003/30/EC.
- Based on the Article 5 of the Law No 7/2017 of 2.02.2017 "*On promotion of the use of energy from renewable sources"*, the Decision of Council of Ministers No 179 of 28.03.2018 "*On the approval of the National Renewable Energy Action Plan (NREAP) 2018 – 2020"* was approved.

    The current National Action Plan for Renewable Energy Sources (2018-2020) sets out the roadmap for achieving the national target for the share of energy produced from renewable sources, consumed in the Electricity Sector, transport and in the heating and cooling sector by 2020. PKVBER also sets quantitative and specific targets for electricity generation technology from Renewable Energy Sources.

    Specifically the National Renewable Energy Action Plan (NREAP) 2018 – 2020, foresees an increase of the consumed electricity generated from renewable sources, with at least 172 ktoe (2,044 GWh) by 2020. NREAP 2018 – 2020, also foresees the expansion of installed electricity generators based on renewable sources to 798 MW.

    The NREAP 2018 – 2020 takes into consideration the progress in the developments of these technologies towards these targets, and adjusts them accordingly to ensure the achievement of the national target of RES consumption (38%) in 2020.
- Based on the Law No 7/2017 of 2.02.2017 "On promotion of the use of energy from renewable sources", was approved the Decision of Council of Ministers No 369 of 26.04.2017 "*On the approval of the methodology to decide the purchase price for electricity generated by small renewable sources from sun and wind".* The Decision of Council of Ministers provides the tool to calculate the true cost of solar and wind implementation in Albania.

    As stipulated by this DCM, ERE is obliged to approve the purchase price of electricity produced from small renewable sources of sun and wind, in accordance with this methodology and averaged costs. Based in this DCM, ERE Board with the Decision No 120 of 27.07.2017 decided that the electricity purchase price to be paid to small renewable sources from sun and wind" for 2017 is 100 Euro/MWh for photovoltaic and 76 Euro/MWh for wind;

    Actually, ERE with the Decision of the Board of Commissioners No 19 of 19.01.2018 "*On the annual purchase price to be paid to existing priority producers of electricity for the year 2018*", has approved the initiation of procedures for the approval of new price for year 2018, to be paid to priority producers;
- Based on the Law No 7/2017 of 2.02.2017 "On promotion of the use of energy from renewable sources", was approved the Decision of Council of Ministers No 349 of 12.06.2018 "*On the approval of support measures for the promotion of the use of electricity from renewable sources of sun and wind, as well as procedures for selecting projects for their benefit*".

    This Decision establishes support measures for the promotion of the use of electricity from renewable sources of sun and wind and procedures for selecting projects that benefit from these measures, according to Article 8(1) of Law No 7/2017 of 2.02.2017 "On promotion of the use of energy from renewable sources" and the objectives of the National Renewable Action Plan 2018 – 2020.

    Supportive measures to promote the use of electricity from renewable sources of sun and wind are provided through a competitive, open, transparent and non-discriminatory process that provides credibility to participants and guarantees the provision of these measures to entities that provide the best conditions for as regards the price of energy, technology used and the way of building the plant.

Based on the Decision of the Council of Ministers No 349 of 12.06.2018 and the objectives of the National Renewable Action Plan 2018 – 2020, the Ministry of Infrastructure and Energy opened the bidding procedure to select the developer of the project for the construction of a photovoltaic plant with an installed capacity of 50 MW, as part of the Support Measures, in the Akërni Area (close to Vlora) and the construction of additional capacity of 20 MW up to 50 MW, which will not be part of the Support Measures.

The winning bid of this project, provides a 50 MW energy price of 59.9 Euro / MW for 15 years and an additional capacity of 50 MW (100 MW in total) without support for energy purchases.

We appreciate the results of this auction as it has managed to secure one of the lowest prices in the region for this type of technology (Greece 63 Euro / MW and Turkey 62 Euro / MW), lower than average prices import in our country, and an additional capacity of 50 MW, making this offer very advantageous for the energy market in the country. This confirms once again the confidence in the development of the Albanian energy market and the investment climate in the country.

This project will be an important step in the diversification of energy resources in Albania.

*Activities planned*

2019

- Implementation of the National Action Plan for Renewable Energy Sources (2018-2020), and achieving the national target for the share of energy produced from renewable sources,
- The signature of the contract and the beginning of the implementation of the Project for the construction of a photovoltaic plant with an installed capacity of 50 MW, as part of the Support Measures, and the construction of additional capacity of 50 MW, which will not be part of the Support Measures, in the Akërni Area (close to Vlora).
- The preparation and the approval of secondary legislation based on the Law No 7/2017 of 2.02.2017 “On promotion of the use of energy from renewable sources”

2020

- Implementation of the National Action Plan for Renewable Energy Sources (2018-2020), and achieving the national target for the share of energy produced from renewable sources,
- The implementation of the Project for the construction of a photovoltaic plant with an installed capacity of 50 MW, as part of the Support Measures, in the Akërni Area (close to Vlora) and the construction of additional capacity of 50 MW, which will not be part of the Support Measures.
- The preparation and the approval of secondary legislation based on the Law No 7/2017 of 2.02.2017 “On promotion of the use of energy from renewable sources”

*(II) Diversification of energy sources through the development of the gas sector*

The diversification of energy sources, through the development of the gas sector, consists of: creating a complete legal and institutional framework for the sector; the undertaking of a number of regulatory initiatives and investment projects in the gas infrastructure and market, whose main objective is to ensure significant security of energy supply through integration of the Albanian natural gas network on the regional and European ones, and increased economic benefits for the population and the different sectors of the economy in the country.

*Activities planned*

2019

- Adoption of Gas Master Plan for Albania and the Project Identification Plan (approved by the DCM No. 87, dated 14.02.2018), which are considered National Sectorial Plan for the gas sector;

- Preparation by the Consultant SUEZ IPF6, of the preliminary technical design for the Albanian and Montenegrin part of the IAP pipeline, on the frame of the grant 2,5 Million Euro financing by WBIF ;
- Finalised of the preparation by the Consultant COWI IPF4 of the prefeasibility study for the ALKOGAP project (Albania-Kosovo gas interconnection), on the frame of the grant 0,3 Million Euro financing by WBIF ;
- Starting preparation for the detailed technical design of the gas-pipeline connecting Vlora TPP with the TAP project in the compression station in Fieri region (PIP 1, refer to the Gas Master Plan for Albania), based on the decision of 19-th Steering Committee Meeting of WBIF for the 20 Round of WBIF for approval of financing grant of 1,1 Million Euro. (Referring to the Feasibility Study for the gas pipeline connecting the Vlora Thermo Power Plant with the TAP pipeline project at the compression station in the Fieri region, finalised on March 2018).
- Construction by the Trans Adriatic Pipeline AG (TAP AG) of the Initial Albanian Exit Facility or IAEF) at the TAP gas-pipeline near the Compressor Station on the Fieri Municipality. (Refer to the DCM no. 233, dated 21.3.2017 "On the approval of a commitment agreement for the development of the gas market and the agreement on Local benefits, concluded between the Republic of Albania, acting through the Council of Ministers, and Trans Adriatic Pipeline AG, regarding the project Trans Adriatic Pipeline".). The investment for construction of the IAEF will be financed totally by TAP AG and is estimated around 3 Million Euro.
- Starting the preparation of the Feasibility Study for the Under Ground Gas Storage in the Dumrea Region (UGS Dumrea), based on the decision 19-th Steering Committee of WBIF for the 20 Round of WBIF for approval financing grant of 1 Million Euro.

2020

- Finalisation of the preparation by the Consultant SUEZ IPF6, of the preliminary technical design for the Albanian and Montenegrin part of the IAP pipeline, on the frame of the grant 2.5 Million Euro financing by WBIF ;
- Preparation of the detailed technical design of the gas-pipeline connecting Vlora TPP with the TAP project in the compression station in Fieri region, based on the WBIF grant financing 1.1 Million Euro.
- Enter on the operation of the Initial Albanian Exit Facility (IAEF) at the TAP gas-pipeline near the Compressor Station on the Fieri Municipality, constructed by the Trans Adriatic Pipeline AG (TAP AG). Total investment by TAP AG around 3 Million Euro.
- Preparation of the Feasibility Study and ESIA for the Under Ground Gas Storage in the Dumrea Region (UGS Dumrea), based on the WBIF grant financing 1 Million Euro.
- Starting the preparation of the feasibility study and ESIA for the ALKOGAP project (Albania-Kosovo gas interconnection), based on the conclusion of the prefeasibility study (Application to WBIF for around 1.15 Million Euro grant).

2021

- Preparation for starting the construction works for the gas-pipeline connecting Vlora TPP with the TAP project in the compression station in Fieri region.
- Finalisation the preparation of the Feasibility Study and ESIA for the Under Ground Gas Storage in the Dumrea Region (UGS Dumrea), based on the WBIF grant financing 0.8 Million Euro.
- Preparation of the feasibility study and ESIA for the ALKOGAP project (Albania-Kosovo gas interconnection), based on the conclusion of the prefeasibility study (Application to WBIF for around 1.15 Million Euro grant).
- Starting the preparation of the feasibility study for the gas-pipeline project TAP - Fier – Ballsh (PIP 2), based on the conclusion of the prefeasibility study prepared on the frame of the Gas Master Plan for Albania, approved by the DCM no.87, dated 14.202.2018. (Application to WBIF for around 0.8 Million Euro grant).

- Starting the preparation of the feasibility study for the gas-pipeline projects which will connect Tirana and Durres municipalities with the IAP Project (PIP 3), based on the conclusion of the prefeasibility study prepared on the frame of the Gas Master Plan for Albania, approved by the DCM no.87, dated 14.202.2018. (Application to WBIF for around 0.8 Million Euro grant).

*Estimated cost of activities and source of financing*
Preparation of several studies like prefeasibility and feasibility studies, or preliminary and detailed technical design for the Albanian gas projects are planned to receive financial and technical support from WBIF.
Meanwhile, the construction of the Initial Albanian Exit Facility (IAEF) at the TAP gas-pipeline near the Compressor Station on the Fieri Municipality is agreed to be financed by the Trans Adriatic Pipeline AG (TAP AG). Total investment by TAP AG is around 3 million Euros.
Projects financed by WBIF are exempt from VAT reimbursement, due to the direct management by the EU and the respective regional offices.
The VAT will be reimbursed for the investment of TAP AG for construction of the Initial Albanian Exit Facility (IAEF) at the TAP gas-pipeline near the Compressor Station on the Fieri Municipality.

*Expected impact on employment and gender*
The reform will have direct social and economic impact by contributing in the improvement of the environment; and improving employment opportunities.

*Expected impact on competitiveness*
Diversification of energy sources (gasification) will have direct positive impact on increasing competitiveness by making possible the addition of a new energy source in the energy market in Albania, as well as contribute in the increase of security of energy supply.

*Key performance indicators*
- Completion of secondary and regulatory legislation;
- Preparation of prefeasibility and feasibility studies or preliminary and detailed technical design for the Albanian gas projects.
- Degree of completion of the Initial Albanian Exit Facility.

*Potential risks*
No risks are foreseen in the realisation of the projects and studies in support of diversifying sources of energy supply in particular the gasification of the country and the development of the gas network and interconnection lines with the region and beyond since the financing has been agreed upon already and they are donations from EU institutions or in support of it. There might be a general risk due to the necessary interplay between all relevant stakeholders (5%).

**Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana**
Aiming at establishing a competitive, reliable and safe transport system, which positions Albania within the European railway market as a player in South-East Europe transport corridors and Rail Freight Corridors RFCs and increases the competitiveness and visibility of extensions of TEN-T Corridors and SEETO Corridors, it includes as well the rehabilitation and construction of the railway segment Durres-TIA-Tirana.
This reform is in alignment with the current policy of the Government of Albania, with the Transport Sector Strategy and Action Plan 2016-2020 and is considered a priority project in the Single Project Pipeline.
The project consists of the rehabilitation of the existing railway line between the Tirana PTT (Public Transport Terminal) and Durres, which is expected to be built in the near future, with approximate

length of 34.7 km, and the construction of a new railway line approximately 5 km in length to connect to the Tirana International Airport (TIA) and its interchange with the existing line (the "Project").
The Project is part of Route 2a of the Western Balkans Core Network and has been established as an indicative extension of the Trans-European Transport Network (TEN-T). The Project is consistent with the national policies for the railway sector and in particular with the Albanian Government Program, National Strategy on Development and Integration (NSDI II 2015-2020), Annual National Transport Plan and Sustainable Transport Plan, Sectorial Transport Strategy 2016-2020 and National Strategy for the Development of Railways 2014-2016. On 21 March 2016, the Project was approved by NIC (National Investment Committee) as a high priority for the Government of Albania.
The Project is co-financed by an EBRD loan in the amount of EUR 36.87 million and a WBIF grant in the amount of EUR 35.435 million which consist of an investment grant in the amount of EUR 32.935 million and a technical assistance grant in the amount of EUR 2.5 million for the works supervision and project implementation support. In addition, WBIF grants in the amount of EUR 2.75 million were provided for project preparation. The loan agreement between Albania and the EBRD was signed in December 2016 whereas the Grant Agreement between the Albania and the EBRD for the use of the WBIF grant of EUR 35.435 million is expected to be signed in December 2017.The general procurement notice for works, goods and services has been published and the procurement process for the works contract is done in early 2018. The procurement of the consultancy services for the works supervision, implementation support, and asset management plan and track access charges methodology is done.

*Activities planned*
2019

- At the beginning of 2019, civil works will be started for the construction of the work, which is expected to be completed about 20 Km from 34Km in total of the Durrës - Tirana PTT segment

2020

- During the year 2020, the remaining 14 km will be completed as well as the construction of a new railroad from Domja (Kashar) to Rinas Airport (5.7Km) will be completed.

2021

- Works are expected to be completed in early 2021 (30 months from the start of the works) where the railway line will be ready and operational.

*Estimated cost of activities and source of financing*
Estimated cost for the entire project EUR 90.45 million
*EUR 36.65 million, Grant, EU/WBIF contribution
** EUR 36.87 million, Loan, EBRD contribution (repayment period 15 years)
*** EUR 0.87 million, Grant EBRD contribution
**** EUR 16.06 million, Beneficiary contribution
VAT (20%)
EUR 16.06 million, beneficiary contribution (EUR 15.06 million VAT and EUR 1 million expropriation cost).

*Expected impact on employment and gender*
Total number of beneficiaries 2.9 million
Direct employment: Construction phase # (FTE) 1,375
New full-time equivalent construction workers for duration of 3 years
Direct employment: Operations and maintenance # (FTE) 2,200
New full-time equivalent employment positions
According to the HR policies and woman in transport and woman in decision-making.

- ERR = 7.43%
- ENPV = 29.52 million euros

- B / C ratio = 1.17.

Also according to the CBA:

- 4,100 person-years of employment will be created during construction of the project – corresponding to 1,375 new equivalent full-time employment positions of 3-years duration.
- 2,200 new full-time equivalent employment positions of duration of 27 years (included in the 30-year reference period of the CBA, after completion of construction of the rail section Tirana-Durres and the rail connection of the airport)) will be created in the operation and maintenance of the railways in Albania.

Technical assistance consists of:

- Supervision
- Communication/visibility
- Evaluation and audit
- Project Management

*Expected impact on competitiveness*

The Project is the first major investment in the railway sector following decades of severe lack of investments in this sector. The Project will contribute to the development if Albania's infrastructure, support national economic development and enhance Albania's regional integration. The Project will reduce the travel time by train from Tirana to Durres providing a competitive alternative transport service to road transport. The Project will increase the passenger and freight travel speed from 60 km/h at present to the design speed of to 120 km/h, throughout the Tirana-Durrës railway line. In terms of outcomes of the Project, traffic demand is expected to increase to over 1 million passengers per year after the implementation reducing road traffic along the Tirana-Durres road by approximately 2,000 vehicles per day and $CO_2$ emissions by more than 4 kilotons.

Expected results include among others, attracting the investments; reducing rail transit times and transport costs (35 % time saving through electronic transmission system; and reducing logistics costs.

*Key performance indicators*

Accessibility etc. are monitoring KPIs in terms of outcomes the project is expected to:

- Serve almost 1.4 million passengers per year
- Over 220,000 tons of commodities by the first year of its operation
- In 2030, these figures are expected to develop to over 1.9 million passengers and 320,000 tons respectively.

| | |
|---|---|
| - Output Indicator 1 New railways Km | 7.4 km |
| - Output Indicator 2 Upgraded railways | 34.5 km |
| - Output indicator 3 Installed signalling and telecommunication systems | 41.9 km |
| - Outcome Indicator 1 Million passengers/year | 1.25 million |
| - Outcome Indicator 2 Tons/year | 245,000 |
| - Outcome Indicator 3 Reduced $CO_2$ emissions tons/year | (-486) |
| - Project Specific indicator 1 Car-kilometres removed from road per year | 8,700,000 |
| - Project Specific Indicator 2 Truck-kilometres removed from road per year | 138,000 |

*Potential risks*

The expected annual net savings in environmental costs of transport are 2 million Euro in the first year of operation increasing to 4.1 million Euro by the year 2040.

Rio Markers Mitigation

RM1 (significant objective) Project [M€] 81.54

WBIF co-financing grant Project [M€] 35.44

Adaptation

RM0 (no objectives) Project [M€] 81.54

WBIF co-financing grant Project [M€] 35.44

Unit costs of IMPACT for this Project are including distinctly for the following types of environmental impacts:

a. Air pollution.
b. Noise.
c. Climate change.
d. Up- and- downstream processes (in production of fuel and vehicles, construction of infrastructure etc.).
e. Nature and landscape.
f. Soil and water pollution.

Environmental considerations are taken into account (e.g., the train is environment friendly and measures for reducing noise of train in urban areas and for minimizing cut-off of areas are underway). The project will significantly improve international traffic (freight and passengers), improve accessibility (Cohesion KIPs), and result in a high quality infrastructure corridor with connected long & short distance and regional / urban traffic flows for population of 1, 077,177 inhabitants in Durres and Tirana regions. (Annual Official INSTAT Data of population for Durres region and for Tirana region)

According to the CBA, the following additional benefits (calculated on the basis of parameters that can be expressed in monetary terms) will accrue from project implementation – measured in terms of ENPVs during the 30-year reference period of the analysis 2017-2046, calculated on the basis of SDR equal to 5% (at constant prices):

- Savings in road vehicle operating costs: 69.6 million euros.
- Savings in cost of time of travel / transport: 55.1 million euros.
- Savings in cost of traffic accidents: 30.2 million euros.
- Savings in environmental costs: 34.7 million euros.

The client has not carried out any major investment project for a long time and would therefore be unable to carry out the procurement and implementation of the Project without substantial assistance. The Project includes comprehensive technical assistance to ensure that the procurement follows the required procedures and works are supervised by experienced supervision engineer and that international consultant assist the project implementation unit. The Environmental and Social Action Plan prepared for the Project includes a requirement for the preparation of a land acquisition plan. Specific obstacles may arise during the expropriation procedure necessary for implementation of the Project and some technical impediments given the nature of the project.

### 4.3.2. Sectorial development

*1. Analysis of main obstacles*

Agriculture sector is still one of the most important of Albanian economy. Nearly 46% of population lives in rural areas where the main activity is agriculture as the most important alternative of working. Agriculture contributes about 18.9% of GDP and some part of exports. The real average growing in agriculture sector in the last five years is evaluated to be 3-3.5% per year.

Nevertheless, the development of the agriculture sector is below the national average and in the same time away from real potentials as a result of problems the sector is facing mainly linked to rural exodus, the limited size of farms and ownership of agriculture land, marketing of agriculture products, irrigation and drainage, low level of used technologies, weak organization of farmers and last the low level of development of the agro-food industry.

Agriculture in Albania is mainly characterised by very small family farms oriented toward self-subsistence. Nearly 46% of farm holds own less than 1 Ha of agricultural land, whereas 86% of farm holds own less than 2 Ha of agricultural land. As a result, 30-40% of agricultural and livestock products are intended for the markets, the rest is used by farmers for their personal consumption.

Albanian economy has limited possibility to export its agricultural products as a result of non-sufficient and low level of agriculture production and agro-processing industry, no marketing facilitation (warehouses, packing of products etc.), low standards for food quality security, and high cost of products.

Farmers are faced with problems of automation. In recent years, a considerable quantity of tractors and other agriculture-related machinery have been imported. However, there are still not enough/adequate number of modern machines/equipment for specialised processes, which the farmers sorely need. Existing owners of these agricultural machineries demand high prices from farmers for different automated agricultural processes such as ploughing, seeding, harvesting, transporting, etc.
Only 74 % of families involved in agriculture are making use of automation to perform basic land processing/preparation. 23% use draft animals to plough the land, and 59% use both farmhands and automation. The use of labourers to plough the land is primarily done by family farms located in the highlands region (75%), farm holds under 1 Ha and those between 1-2 Ha. At the national level, nearly 93% of farmers use chemical fertilisers, which take up approximately 23% of a farm's total spending or 50% of the value of inputs purchased by farmers.
Agriculture has considerable need to continue the on-going rehabilitation process of irrigation and drainage systems, protection from floods, management of irrigation and drainage systems by the municipalities and the Ministry of Agriculture and Rural Development.
Attempts to promote competitiveness of agriculture include facilitation of formalisation of agricultural activities and networking of farmers with domestic and international markets. In 2017 the government increased visibly its budgetary support for the sector, with the inclusion of support schemes implemented by the Agency for Agricultural and Rural Development (AARD), IPARD II, foreign investment, farmer formalisation and construction of collection and distribution centres.
Financial schemes and the support from new technologies has contributed to the creation of new fruit orchards and boosting of produce/crops from certain subsectors. Agricultural production has increased in average by 3% the last few years. Increase in yield has been most notable in grapes, potatoes, milk, eggs, and fruit. In addition, produce has increased by 70%, dairy production by 21% while other agricultural crops/products by 10%. The main agricultural products in Albania are olives, and nuts.

In recent years, the Government has been working to promote the processing of Albania's natural resources, including minerals such as nickel-silicate or quartzite and leather, and to support the industrial sector by providing financial support to pre-feasibility assessments and technical-economic studies in cooperation with scientific research institutions. In 2014 and 2015, the Ministry of Energy and Industry ("MEI"), in collaboration with the National Agency of Natural Resources, carried out a technical and economic study on the copper industry to compare the actual level of processing conducted in Albania with full cycle processing. In addition, a study on the leather-footwear industry is currently being carried out and is expected to be completed by the end of 2018. The Government has also offered financial support for two further studies, in the nickel-silicate and quartzite industries, in cooperation with scientific research institutions, the results of which the MIE intends to use to develop the investment potential of such industries. Based on the findings of the studies, the MIE intends to promote these sectors with a view to increasing investment potential.

Tourism is one of the most important components in Albania's services sector, contributing 8.5% to GDP in 2017, as compared to 8.4% in 2016, and creating 93,000 jobs in 2017 (accounting for 7.7% of total employment), according to the World Travel and Tourism Council ("WTTC"). Policy initiatives in the tourism sector are focused on making Albania an attractive and sustainable destination for tourists. The GoA's National Strategy for Development and Integration for 2014 to 2020 ("NSDI") aims, in particular, to encourage the development of middle-to high-end sustainable tourism through the following strategic goals: (i) establishing an international standard certification system; (ii) incentivising the development of (high-end) non-traditional tourism; (iii) focusing public infrastructure provision in areas of current and potentially high tourist demand; and (iv) creating a greater international awareness of Albania's natural environment, traditional heritage and hospitality.

The Government is in the process of creating a database of updated information for businesses in the tourism sector, with the aim of achieving growth in tourism investments and supply of tourist activities.
The Government is also developing tourist destinations and resources, offering types of natural tourism, cultural tourism and costal tourism. Such measures are expected to increase job creation, international arrivals, international tourism receipts and tourism investment. The Government has budgeted to spend an additional ALL 52 billion on such initiatives from 2018 to 2020. The majority of the remaining funds to be invested in tourism between 2018 and 2020 are expected to be spent on improving road infrastructure and the reconstruction of urban districts in tourist areas. In November 2016, the World Bank approved a loan of USD 71 million in respect of an Integrated Urban and Tourism Development Project aimed at improving urban infrastructure, enhancing tourism assets and strengthening institutional capacity to support tourism-related economic development in selected areas in the south of Albania. The project, which began on 30 April 2017 following the ratification of the loan agreement by the Assembly, is expected to be completed on 31 July 2022. Construction work to improve infrastructure is currently underway, with work taking place on public staircases in Saranda and on the Mihal Komneno road in Berat.
The Government is in discussions with the EBRD for the provision of a sovereign loan facility to finance tourism initiatives and general municipal infrastructure and transport infrastructure (the "AITP"). The AITP, if approved, is expected to be co-financed with an EU grant for the rehabilitation of cultural and natural heritage sites.

Integrated water management is one of the priorities of the Albanian government[23]. The water sector plays an important role in the social and economic development of the country. It is closely related to electricity generation, agriculture development, tourism and recreation. In the process of European integration, the achievement of EU standards in the water sector is considered one of the most difficult and costly processes. Albania is rich in water resources and ranks among the first European countries with regard to the amount of water per capita of the population, yet again there are many areas and urban centres that suffer from the lack of drinking water.
The water sector is subject to many obstacles. The improvement of the managerial performance of the Utility Companies, (in the forefront of which is the formalization of consumers that are connected to the network but do not yet have a contract with the utility or a water meter), and the improvement of the financial performance of the utility.
The competences for water supply service, and collection and treatment of urban wastewater remain as a function of the local government. Thus, municipalities have their own autonomy with regards to the service provision, as well as in choosing their approach of this service. The limited amounts of financial incentives given by the central government do not help in obliging the local government to action, and the centralized model of the service that was in power a decade ago has resulted in failure. Taking into consideration the current legal framework has limited instruments for abidance. Assets as well as administration according to the law on local government remain a function of the municipality.
There are difficulties in identifying functional sustainable instruments and mechanisms that would guarantee improvements of the situation.
There is a large gap between needs and financing in comparison to real budgetary possibilities for making quality improvement to the service. Need for increasing investments in the sector.
The highly fragmented sector (of about 60 UK enterprises) should consider the beginning of the aggregation process and be preceded by a pilot project with the utmost commitment that it will be successful as an example for the entire sector in the future. Measure (Water Supply Sanitation Aggregation Action Plan) on going.

2. *Reform measures*

[23] National Strategy for Development and Integration 2015-2020 (approved by DCM No. 348 dated 11.5.2016)

**Reform measure 04: Consolidation and defragmentation of agricultural land**

The main objective of the strategy is the creation of competitive and economically viable/successful family farm holds that will be made possible by developing the conditions for land consolidation through the appropriate legal framework and the implementation of land consolidation projects that will be part of the National Program for Land Consolidation.

On a voluntary-basis requests by the majority of owners in a specific cadastral area, raising awareness for the project and encouraging further voluntary requests; improvement of infrastructure and approach on voluntary basis according to the new plan of redistribution, where the bulk of the work on the site is carried out together by public institutions and private contractors. Through National Support Schemes from the State Budget, the number of applications for 2018 was about 30% higher.

Projects for land consolidation will be carried out in parallel with infrastructure planning with regard to quality of road network and irrigation as part of an integrated approach for the development of agriculture sector. Priority will be given to regions with developed and intensive agriculture, where small and fragmented parcels limit further development of agriculture as a primary activity in rural areas, if there is interest from farmers.

In the framework of land consolidation projects are carried out and will continue to be carried out in parallel with infrastructure planning regarding the quality of road network and irrigation as part of an integrated approach to the development of the agricultural sector; the use of advanced techniques and technologies; support with national schemes; farmers' co-operation, etc.

Decentralization of irrigation and drainage functions for municipalities and restructuring of the Regional Drainage Boards have been the main changes in the water management field.

Transfer of ownership of agriculture land and registration on ownership titles is the first step to achieve the main objective of the strategy. All farmers' documentation is being prepared at no cost by the municipality to be registered with the IPRO.

The completion of the process of completing Land Ownership Acts is envisaged by legislation by the end of December 2018, where about 20,000 titles (AMTP) are expected to be completed.

The process of registering Land Ownership Acts is underway. So far, there are data about 450,000 titles (AMTP).

Therefore, the reform will focus more on land consolidation, as described earlier as one of the main obstacles for the competitiveness of the agriculture sector.

- In order to achieve the objectives of the strategy, is foreseen the establishment of a unit responsible for land consolidation within the Ministry of Agriculture and Rural Development within 2019, due to the complex structure of the ministry.
- The development of the legal framework, trainings and capacity building will be financed by MARD and the Ministry of Finance and Economy. The funds are foreseen in MARD's budget. In the draft budget for 2019-2021 is foreseen also the establishment of the unit for land consolidation.

The implementation of the programme "Sustainable management of agricultural land" will continue. It aims at improving the quality of land register in order to improve the financial approach and the land consolidation basis. The programme it will create a Land Information System (LIS), which will serve as an efficient instrument for the realization the policy for sustainable administration of agricultural land, use, protection, consolidation and development of land market. The programme will continue through 2019 until 2021. So far, this program has generated information about 323 thousand ha of land surface spread across the country.

*Activities planned*

The "Sustainable Agricultural Land Management" program will continue throughout 2019, 2020 and 2021 and will be realized by ATTC Fushë-Krujë.

The designation of 77.500 ha and 20 administrative units per year is conditioned by human capacities and budget planning for ATTC Fushë-Krujë.

2019

- Land Information System (LIS) will create about 77,500 ha of agricultural land in the Districts of Gjirokastër, Tirana, Durrës and Lezhë from ATTC Fushë-Krujë.
- Partial digitalization of agricultural land registers for 20 administrative units of the country.

2020
- Land Information System (LIS) will create about 77,500 ha of agricultural land in the Districts of Tirana, Lezha and Shkodër.
- Partial digitalization of agricultural land registers for 20 administrative units of the country.

2021
- Land Information System (LIS) will create about 77,500 ha of agricultural land in the Districts of Dibër, Kukës, etc.
- Partial digitalization of agricultural land registers for 20 administrative units of the country

*Estimated cost of activities and source of financing*
90,000,000 ALL from the state budget for "Registration and digitalisation of agricultural land" (2019, 2020, and 2021).
- ALL 30,000,000 for the integration Land Information System of 77,500 ha of Agriculture land and digitalization of agricultural land register (2019).*
- ALL 10,000,000 for complete GIS laboratory in ATTC Fushë-Krujë (2019).
- ALL 30,000,000 for the integration Land Information System of 77,500 ha of Agriculture land and digitalization of agricultural land registers (2020).**
- ALL 30,000,000 for the integration Land Information System of 77,500 ha of Agriculture land and digitalization of agricultural land registers (2021).***

**The cost for 2019 is covered by MARDWA budget program 05470 "Sustainable land management".*
*** The cost for 2020 is covered by MARDWA budget program 05470 "Sustainable land management".*
**** The cost for 2021 is partially covered by MARDWA budget program 05470 "Sustainable land management".*

*Expected impact on employment and gender*
It is expected that the land reforms and the economic advantages these bring will create new jobs and improve quality of life in rural areas. Women will have equal rights to participate in land consolidation activities. Land consolidation projects should protect and respect property rights for all women, men and young people.

*Expected impact on competitiveness*
The land consolidation reform is a complex will contribute significantly to the formalisation of the agriculture holdings as well as their economic activity, which will facilitate subsidies and rural credits. In addition, it will increase investments in agriculture and development of the formal land market. Land consolidation will lead to the increase of mechanisation of the agriculture allow for economies of scale.

*Key performance indicators*
- Land size (in Ha) created by the Land Consolidation System;
- Increase in agricultural exports;
- Increase in investments in the sector of agriculture (EUR).

*Potential risks*
Land consolidation serves the transformation of agriculture into a productive and profitable sector, but landowners and rural communities are sceptical about land consolidation (<5%).
One of the medium-impact risks is insufficient financial resources to enable finalization of the process. The risk rate is estimated up to 10%.

**Reform measure 05: Reform on the Water and Waste Water Sector**
To address challenges in the water sector, the GoA is reforming and water and wastewater sector. Since the reform has begun, there have been 33,000 new contracts signed and 65,000 new meters installed and 12 million Euros in revenue generated.
The reform on this sector covers water supply service and urban wastewater treatment and disposal, and will be based on the establishment of three main pillars, Good Governance, Effective Investments, and Action against Informality.
The sector overview is oriented on: (i) Reducing non-revenue water by 20%; (ii) Provide 24/7 access to water in coastal areas; (iii) Improve quality water; (iv) Synthesis and next steps.
The focus is to:
Ensure efficient governance of the water and sanitation sector
Provide universal access to safe drinking water and sanitation
Achieve compliance with water pays for water principle through full cost recovery
Achieve compliance with the polluter pays principle
Provide water supply and sanitation services to consumers at an affordable price
Ensure public participation and transparency in water policy

The purpose of the reform is to improve the wellbeing of the citizens by providing water supply services and wastewater disposal and treatment in accordance with internationally recognized standards. This governmental action has several dimensions, of social and economic character such as:
1. Government will be fulfilling its duty to provide the citizens with the service they deserve;
2. Support for health, safety and social responsibilities through governance;
3. Support financial stability and efficiency;
4. Support environmental protection;
5. Implementation of the law;
6. Provide a better climate for tourism;
7. And enforce the consumer pays principle.

The reform will strive to reduce informality increase water service and sewerage coverage and improve wastewater treatment. In addition, there are two national objectives set for:
1. Reducing non-revenue water by 20% until 2021.

Increasing the hours of service in the coastal area aiming 24 hours by 2021. However, this last objective is highly dependent on the availability of funds. At the moment, a working plan is being devised in order to calculate the exact need for funds in order to achieve this.

*Activities planned*
2019
- **Update of the Master Plan**

  Review of current strategy, legal, institutional and policy level
- **Update Strategy to improve services, governance, and cost control**

  The process of adopting the Strategy in the Council of Ministers, first semester 2019;
- **Updating the Law and strengthen the capacities of key institutions in this sector**
- **Adopting legal measures to expand the Subsidy scheme for the installation of new meters**
- **Improve the performance of water and sewerage utilities by introducing comprehensive Water Reduction Program**

  Formalize training and certify workforce in the water sector.
- **Improvement of the water supply and sewerage service in the main touristic coastal areas**
- **Finalizing Performance contracts with utility providers**

2020

- Evaluate and optimize Performance contracts.

2021

- Continued evaluation and optimization of Performance contracts.

*Estimated cost of activities and source of financing*

Some of the actions will have an impact on the budget; however, the exact figures are still being calculated.
24/7 coast water supply;
20% reduction NRW-60 ml Euro
80 mn Euro Water supply
280 mn Euro sewage WWTP
Total: 360 mn Euro (2018-2021).

*Expected impact on employment and gender*

This is a gender-neutral reform measure. It will have a direct effect on employment during the construction phase of the water and wastewater treatment facilities in the short term and may have a positive indirect effect on employment in such sectors as tourism, agriculture, etc.

*Expected impact on competitiveness*

The foreseen actions have several dimensions of social and economic characters, such as:

- Enforce the consumer pays principle;
- Provide a better climate for tourism;
- Implementation of the law, reducing informality
- providing citizens with the service they deserve;
- Support for health, safety and social responsibilities through governance;
- Support financial stability and efficiency;
- Support environmental protection.

*Key performance indicators*

*1. According to the strategy the sector will perform as following:*

| *Performance indicator* | *Strategic goal (2017 est.)* |
|---|---|
| *Coverage of water supply service* | *91.5%* |
| *Coverage of sewerage service* | *66%* |
| *Uninterrupted water supply (hours)* | *20 hours* |
| *O/M costs by revenue* | *100%* |
| *Total costs by revenue* | *80%* |
| *Overall billing collection rate* | *98%* |
| *Non-revenue water* | *40%* |
| *Metering level for consumption* | *85%* |
| *Number of regional WSS utilities* | *26* |

2. For the action plan "Non-Revenue Water" the sector will perform as following:
75% of the losses are represented by 8 Uk-s and will be the focus till 2021 to reduce non-revenue water by 16%
8 utility companies serve about 2/3 of the country's population and account for the 75% of the national NRW

- 10 interventions have been identified as drivers to decrease non-revenue water to 150 million m3, of which five will yield the most results:
- Bulk metering at all sources, pumping stations and storage reservoirs
- Meters for unmetered costumers

- Identification and replacement of all malfunctioning meters
- Prioritized meters for large costumers
- Update existing costumer's database
- PDA to reduce billing errors
- Reduction of unauthorized use
- Standard operating procedures for the costumers billing database
- GIS mapping of the entire system
- Reduction of visual leaks

*Potential risks*

Potential risks for this reform include delays due to lack of funds (5%), delays due to work load (15 %), which will be mitigated by means of careful planning on the central level (5%). Already a team has started working for the development of a detailed plan. Furthermore, meetings are being held with the donor community active in the field of water in order to share the government's plan, and share certain projects and tasks. Other risks may include lack of political will; however, this has been already mitigated by the commitment of the highest levels of government, and inclusion of all possible partners in the sector.

### 4.3.3. Business environment and reduction of the informal economy

1. *Analysis of main obstacles*

One of the most important measures to improve the business environment is to reform the property tax, mainly initiated due to weak performance of the property tax collection. The lack of a national property tax register and the existence of a non-value-based tax property has shown that legal and logistic framework improvement regarding property market are needed, therefore a property tax reform was considered. This poses threats and higher costs for the business firms since the property is one of the main factors of production (physical capital) for their activity. Reforming property tax and establishing the fiscal cadastre will affect business environment as an external macro-environmental factor since influence on two directions: as an Economic and Legal environment. Because of the uncontrollable nature of macro forces, a firm has to adjust or adapt itself to these external forces, which currently are hampering the business performance

Despite the recent advances and many ongoing reforms in this area, reducing regulatory cost for business, abolishing unnecessary procedural requirements are still essential to enable long-term investment and to improve business development.

The deregulation reform as its component part means: Reduction of bureaucracy and provision of services in an integrated form; reduction of required documentation in public services (permits, licenses, authorizations); unification and standardization of procedures; providing as many public services online, anywhere and in real time; transferring the burden from citizens to public institutions to get a document issued by the state. The ultimate goal is to switch to 100% e-services where it can be applied and service anytime and anywhere for citizens and businesses.

Our goal is to reduce as much the financial costs and time that citizens and businesses need to benefit from public services, reducing the number of documentation as certificates, permits, licenses, or authorizations that state institutions require in exchange for the services provided.

At the same time, we intend to promote the use of online services that avoid long queues in the counters, eliminate corruption and bring the state administration closer to the needs of citizens and businesses.

This reform aims to reduce licensing and requirements and provide business services through a single window. Based on NSDI 2015-2020, PKIE2016-2020, NSDI 2014-2020 and DB 2016-2018, this reform measure envisages the following activities:

- simplification of licensing procedures / business permissions / authorizations and review of the relevant legal framework;

- Facilitating documentation and administrative-bureaucratic burden for receiving services to citizens and businesses.

The proposed action will be carried out in parallel with other reforms affecting the business environment such as industrial policy development, support for research and innovation, reduction of bad credit levels and administrative capacity building. Hence, the creation of solid monitoring instruments to allow timely control over new legislative changes are very important.

Banks in Albania allocate around 34.9% of their portfolio to large businesses, 14.1% to medium businesses, only 9.4% to small businesses, and 3.3% to microbusiness, as of August 2017. The banking sector constitutes 89.7% of the financial sector and the NPL level as of August 2017 is at 15.1%.

The loan portfolio expanded by 0.9% in August 2017 compared to the same period previous year at ALL 602.2 billion level. Accounting for write-offs, ALL 10.5 billion throughout the year, loans would have increased by 2.7.

Credit to private sector was 1.1% lower than a year ago, at a time when loans to households grew by 4.5%. The share of private sector loans to total loans portfolio is 65.7% while households around 29.2%.

*2. Reform measures*

**Reform measure 06: Property tax reform and establishment of a fiscal cadastre**

In order to lay the information basis for the new property tax, a fiscal cadastre will be established and a new methodology will be implemented on value-based tax property. The purpose of the cadastre will be to consolidate and to improve the quality of all existing data on land, buildings and owner/occupants, and to calculate the annual tax obligation associated with each property. Each property will be assigned with a unique property identification number and either the legal owner, if known, or the occupant, along with the national ID number for that person or entity. The unit responsible for the cadastre will not have the authority to resolve conflicting legal claims or verify ownership.

*Activities planned*

The activities included in the ERP 2018-2020 have changed due to provision of international assistance for the establishment of fiscal cadastre through a fully funded project that initiated in 2018. However, the previous activities have not been removed but have been reorganized as part of projects activities.

2019

- Inception and specification (IT development environment established). This phase includes the preparation of requirements and designing of the system.

2020

- Implement market value based property taxation. The market value approach will be applied to all 61 municipalities.

2021

- Transition phase. Register process transitioned to municipalities.

*Estimated cost of activities and source of financing*

This measure will be implemented through a project that is fully funded through a grant. The estimated cost for this measure is euro 3.5 million[24], divided in amount of 1.2 million for year 2019, 1.3 million for 2020, and euro 1 million for 2021.

[24] On May 2018 it was approved The Contribution Agreement, between the Council of Ministers of the Republic of Albania, represented by the Ministry of Finance and Economy (Recipient), and the Swedish International Cooperation Agency (SIDA) for the support of the project " property on the basis of market value", through a grant of SEK 36 281 000 (thirty-six million two hundred and eighty-one thousand) Swedish krona. **Exchange rate 1 SEK = 0.0967 EUR**

*Expected impact on employment and gender*
The establishment of the fiscal cadastre per se, does not foresee direct impact on national employment and gender. Direct effects on employment are seen in the agency established for property tax, as a subordinated institution of Ministry of Finance and Economy with a total of 13 employees. In long term, even thought is not conducted a specific analyse on quantitative effects, this measure is expected to impact in the absorption of the foreign direct investment, therefore creating more businesses and increasing the employment, but no effects are predicted with gender differences.

*Expected impact on competitiveness*
A better functioning economy is an indirect expected impact of this measure. The economy of Albania is expected to be influenced through several ways: i) a clear-cut property tax is a predictable, transparent and sustainable way for the municipalities to raise funds and thus a condition for a good business environment. Property tax is intended to be the main source of income for the municipalities. Although the property tax occupies a small portion of the tax revenues collected by the central and local tax administration, it can be transformed into a sustainable source for local finances. It is foreseen to collect additional revenue at level 0.3—0.5% of GDP. The increased property tax revenues will be invested in better municipal services. ii) an official taxable value on buildings will contribute to a more transparent real estate market, which makes it easier for investors to take part; property market actors will gain better transparency in the property market thanks to that sales price information will be gathered, verified and published, therefore more information will lead on fair competition in the property market. Thus, it will be easier to track the price changes of the property, such changes are an important base for economic and political decisions, which are connected with a well-functioning credit market; iii) An appraised property value, confirmed by the state, will be used as the base for credit marketing and will decrease the need of single-evaluation of the properties. Also, it will be the base for credit-marketing if (IT) systems will be used by actors on the Real Estate Market for efficient internal processes in the judgment of values. In the long run it will lead to lower interests for credit-marketing of properties on the real estate market and will strengthen agricultural sector and so making it competitive in region and providing employment potential. As well, development of the tourism sector, infrastructural improvements, and access to finance will be influenced. The size of the property market value is the key to achieve the full base of taxpayers.

*Key performance indicators*
- *Nb $_{PT}$=No. of registered buildings*. It is expected that the establishment of the fiscal cadastre will lead on the increase of the buildings registered. More than 90% of buildings will be registered in 2020.
- Number of municipalities trained out of 61 municipalities that are expected to be trained.

*Potential risks*
i. *Accuracy of existing data on the buildings (15%).* In the system will be registered all buildings. 600 000 out of 1 500 000 buildings are already registered in the new system containing information on the owner (possessor) and surface. The rest of the building lack this information, therefore the General Directorate of Property Tax has defined some techniques to generate information for the cases when there are missing data and checking from field verification.
ii. *Lack of coordination (5%)*-In order to mitigate the potential effects that could stem from this risk, it is established a working group, which is responsible to implement the action plan of the project and to provide proper consultation.
iii. *Availability of sufficient funds / financial sources (5%)* -This risk is mitigated from the international assistance. SIDA has provided its technical assistance and financial support, through a grant for the IT system development.
iv. *The development of IT system is complex and requires time* (*15%*). From the initial phase of the project there are appeared different IT problems. A plan with timeline has foreseen the

activities that should be completed in a defined time. Also, new general directorate in charge is fully committed to solve potential technical issues and to respect the deadlines.

**Reform measure 07: Reduce regulatory burden to businesses**

*Activities planned*

2019

- Continue the process of re-categorizing licenses / permits / authorizations issued by central institutions and adopting relevant legislative changes (35 licenses for re categorisation);
- Elimination of unnecessary licenses issued by central institutions and adoption of relevant legislative changes (21 permits and licenses and 15 laws to be amended).
- Simplification of procedures for licenses, permits and authorizations issued by central institutions and adoption of relevant legislative changes;
- Transfer of administrative burden from business/citizen to public administration.

2020

- Continue the process of elimination of unnecessary licenses issued by adopting the relevant legislation;
- Providing online of Permit / License and Authorization and Approval of relevant legislative Changes (47 pass on online)
- Monitoring and ensuring the quality of licensing / licenses / authorizations online.

2021

- Transfer of permits / licenses / authorizations from the central level to the Regulated Professions Orders / Chambers of Commerce / Universities / Institutes;
- Monitoring and ensuring the quality of licensing / licenses / authorizations online.

*Estimated cost of activities and source of financing*

Elimination of unnecessary licenses issued by central institutions and simplification of procedures for permissions and licenses: 37,000 EUR (administrative costs).

- Approval of legislative changes on licenses and permits: no additional budget cost is foreseen for this activity.

The overall budget impact is EUR 37,000 for 2019.

*Expected impact on employment and gender*

This reform measure is directly related to the opportunities for increasing investment and creating new jobs in Albania. The implementation of this reform is expected to improve the role of women across different dimensions of sustainable development in the country.

*Expected impact on competitiveness*

The foreseen measures will reduce the administrative burden on business, ease the procedures for business operations, and reduce the time and costs of administrative procedures. It will encourage the start-up of new businesses. It will encourage the domestic market as a result of the simplification of procedures for the newly created businesses.

*Key performance indicators*

- Number of business licences;
- % of businesses satisfied;
- % of businesses that file a complaint/number of complaints filed;
- Number of hours reduced for administrative procedures/cost of applications.

*Potential risks*

Since the reform measure will engage various policy-making institutions and interested parties, and requires timely preparation, submission and approval of relevant legal acts, there might be sluggish implementation due to coordination hiccups or delays between institutions. We assess the occurrence of the risk between 5 to 10%. This can be mitigated by having close monitoring, reporting and regular meetings with the relevant stakeholders.

**Reform measure 08: Reduce red tape and increase the efficiency of the institutions offering services to citizens and entrepreneurs**

This reform aims to reduce the administrative burden for citizens and businesses and increase the efficiency of public administration through better access, higher quality, more transparency based on information and communication technology (ICT) of state administration.

E-Albania is a government portal where business and citizens may obtain an electronic services offered by this portal. In order to get this service each interested subject must log in to the portal account.

The end goal is to switch to 100% e-services allowing citizens and businesses to apply and access these services anytime and anywhere. ADISA (Agency for the Delivery of Integrated Services Albania) and NAIS (National Agency for Information Service) are the champions of the public services reform.

*Activities planned*

2019

- Re-engineering / simplification of public services
- Establishment of a platform for inventorying of public services
- Inclusion of services in the "e-Albania" system.
- Implementation of online services on the "e-Albania" portal
- Enhancement of Citizen Feedbacks Tools in the near future.

2020

- Inclusion of services in the "e-Albania" system.
- Implementation of online services on the "e-Albania" portal
- Improve reliability of public services and streamline them in order to reduce delivery time
- Professionalization of public administration staff through trainings and capacity development on behaviour and interactions as well as competences and knowledge.
- Implementation of
    - "Code of conduct"/ "Ethics Manual"
    - "Citizens Chart"
    - Standardized procedures manual and customer service manual

2021

- The expansion of ADISA-grade services / network in the territory through:
    - co-location: Post Office and Municipalities;
    - operationalizing ADISA mobile delivery units to provide services to remote areas in Albania;
- Access without barriers - Equipping ADISA, through assistance to its Innovation Lab, with standardized solutions for providing easier access to sight and hearing-impaired citizens in integrated service centres;
- Integrated Centre – ADISA opening up in Tirana and in Shkodra by December 2018;
- Plan to extend to 15 ADISA centres by 2021, and increase the number of services offered by ADISA.
- Increase the number, level and take-up of online services (140 new online services)

*Estimated cost of activities and source of financing*

Cost of activities and source of financing are detailed in table 10a and table 10b of Annex 1.

*Expected impact on employment and gender*
This reform measure aims to have an innovative government in order to make it easier for citizens to access public services. This reform aims to shift from simply administering services to regularly engaging and empowering citizens, involving them in the design and in some cases the delivery of these services. This reform will also provide a one-stop-shop for government services for people living in remote areas.

*Expected impact on competitiveness*
This reform will improve the delivery of services both to the citizens and business; therefore there will be significantly reduced chances for bribes during the evaluation or delivery of documentation, and also will increase investment and create new jobs in Albania.

*Key performance indicators*
- Degree of implementation of the reform;
- % of citizens satisfied;
- Transparency (% of citizens that file a complaint/number of complaints)
- Service delivery time;
- Corruption perception index.

*Potential risks*
Since the reform measure will engage various policy-making institutions and interested parties, and requires timely preparation, submission and approval of relevant legal acts, there are risks of sluggish implementation due to coordination hiccups or delays between institutions. We assess the occurrence of the risk between 5 to 10%. This can be mitigated by having close monitoring, reporting and regular meetings with the relevant stakeholders.

**Reform measure 09: Effective implementation of the National Plan to reduce the level of NPL in the banking system**
The Action Plan (AP) of NPLs in the banking system is a set of actions (legislative changes and other implementing activities) composed of 12 measures, with the aim to reduce the level of Non-Performing Loans. This reform is part of the national priorities to improve the access to credit for SMEs.
The actual status of the remaining measures is as follows:
*With regard to framework agreement on restructuring of out of court debt*, with the support of international experts from World Bank and IMF we managed to finalize the so-called "Tirana Approach". Currently this document has been submitted to banking industry for their comments.
The newly drafted Regulation *"On out-of-court treatment from banks, of borrowers in financial difficulties"* complements the current in –force out-of-court guidelines on Inter Creditor Agreement and on Creditor-Debtor Agreement. The new regulation will address only nonperforming multi-lender exposures exceeding a certain threshold.
In other words, the Regulation will deal with large borrowers' NPL. As such, our expectations are that 35 groups / companies with higher NPL levels will be further processed and monitored. This draft Regulation is designed in the spirit of penalizing banks that either do not want to benefit from the signing of this agreement, or those who sign the agreement but not comply with its requirements. This framework, which has already been published on the BoA website for discussion, is expected to be approved by the Supervisory Council.
*With regard to* the activity on the improvement of Credit Registry, has been postponed to more reasonable timing in 2021, taking into the consideration the preliminary preparation needed.
The first part of the recommendations *on the improvements of credit registry*, one of the BoA responsibility has been accomplished.

Regarding the second part of the recommendations on Credit Registry in order to facilitate and to establish the appropriate infrastructure in the context of Credit scoring, assistance from European Bank for Reconstruction and Development (EBRD) is provided. Albanian Association of Banks will be supported by a consulting company to prepare a feasibility study and cooperate with the stakeholders.

A feasibility study for the Establishment of a Credit Bureau in Albania was prepared by the group of consultant hired by EBRD. The recommendations of the Feasibility Study were discussed with both the Bank of Albania (BoA) and the Albanian Association of Banks (AAB) and its member banks. It was generally agreed that the establishment of such a credit bureau shall address the lack of a credit scoring system in Albania.

Considering all the above, AAB has decided to undertake the initiative of developing a private credit bureau in Albania, and has requested the support of EBRD with technical assistance during its setting-up phase, through the engagement of a consultant that brings international expertise and experience.

From its side, the EBRD has already prepared the Terms of References to retain an International Consultant to assist the AAB in the setting-up phase of a credit bureau in Albania, as well a local juridical consultant, which will assist in establishing the appropriate regulatory and legislative framework that enables the creation of a private credit bureau. The international and juridical consultants have been selected and have started to work on the project on October 1, 2018. Actually it is expected to be released the inception report which will contain findings and conclusions arising from the work completed during the designated period and provide guidance and expert advice, through each of the steps of setting up a private credit bureau in Albania.

**Crediting of the private sector, business, and possible obstacles to overcome**

Credit activity grew moderately in 2018 Q2, similar to the end of 2017. Private sector credit to GDP ratio is estimated at about 35.5%, or 0.7 percentage point less compared to the previous quarter. Adjusted for the appreciation of the domestic currency against the main currencies, present during most of the second quarter of this year, the average annual growth rate of credit to the private sector fluctuated around 5%, from 5.6% in the previous quarter.

Credit developments, in terms of currency, confirm higher growth of credit in lek compared to credit in foreign currency. Despite this, the credit portfolio in lek recorded a lower growth rate in the second quarter (6.3%) compared to the first quarter (7.0%). This slowdown partially reflects the impact of lower lending to enterprises, which peaked in the second quarter of the previous year. The performance of credit in foreign currency carries to a large extent the impact of the exchange rate. Excluding this impact, lending in foreign currency increased on average around 4%, from 4.5% in 2018 Q1.

Credit expansion to the private sector reflects the good performance of loans to households. Credit to this segment increased annually on average by around 8%. The continuous ease of standards for credit to households, in line with the increasing demand in this segment, has broadly supported this portfolio expansion. At the same time, positive developments in the labour market and the perception of the housing market developments are among the main factors that stimulate the demand for loans to households. These developments were reflected in the annual growth of credit for house purchase by 6.8% and consumer credit by 12% on average in 2018 Q2

Loans to enterprises slowed down its growth rate to 3.5%, in 2018 Q2. It appears volatile, both in terms of short-term monthly developments and annual terms, due to unsteady developments in the liquidity loan portfolio (2.6%). This portfolio is generally characterized by large fluctuations, depending on the short-term financing needs of enterprises. Investment loans (4.3%) performed better and they largely support the growth of credit to enterprises.

Based on the banks' opinion, gathered through the bank lending survey for 2018 Q2, banks have kept broadly unchanged the non-price standards of loans to enterprises and eased standards of loans to households. Thus, unlike a quarter earlier, banks did not change their collateral requirements and

maximum maturities of loans to enterprises, while they slightly tightened the requirements for loans size.
Banks report a tightening of lending policies to enterprises, which reflect the costs of the funds, bank's capital and liquidity positions, their perception on risk exposure as well as their risk appetite. On the other hand, banks eased their lending standards to households during this quarter. The generally more positive approach of banks toward households is reflected by the eased collateral requirements for credit coverage. The other standards of these loans remained similar to the standards of the previous quarter.
Based on the semi-annual Survey on "Financing and Borrowing of Enterprises in Albania" for the first half of 2018, it is noted that the cost of credit continues to be considered as the main factor that makes it difficult to obtain a bank loan, especially for small and medium-sized enterprises. Following the cost of the loan, the cost of meeting the requirements of the bank continues to be a considerable difficulty, for all three groups of enterprises in size allocation, followed by an assessment of the conditions for loan guarantees and the uncertainty of the bank's claims; bureaucratic procedures. However, even for the latter, small and large enterprises give downward estimates, expressing improvement over the period analysed compared to the previous one.
Enterprises that have decided not to apply consider the loan process to a bank to be difficult, and this seems to be most often claimed by small and medium-sized enterprises.
For the first semester, 2018 there is an increase in the share of those who consider this process difficult or who claim that it is easier to borrow from alternative sources.

*Activities planned*
2019
- Framework agreement on restructuring of out of court debt.

2020
- Improvement of Capital Registry (part [b] credit scoring.

*Estimated cost of activities and source of financing*
There is no cost associated with the fulfilment of these activities as long as both activities consist on drafting new regulatory framework from the BoA's permanent staff under technical support from IMF and WB. This is a daily routine job of involved team.

*Expected impact on employment and gender*
The decrease of Non-Performing Loan Ratio during the recent year (13.2 per cent in June 2018) has impacted positively the activity of the banking system to grant new loans to economic agents focusing especially to SME and corporates.
As a result, the extending banking system activity will be impact the private consumption, investments, and employments.
In terms of social outcomes, the presence of more efficient actors in the market, improving competition and better access to bank financing is expected to have a positive impact on private investment and employment. The highest market competition is expected to increase the variety of investments and the need for a more diverse manpower. This mechanism is expected to be positive in particular to ensure higher employment rates for young people and women, with a diverse educational background.

*Expected impact on competitiveness*
Improvement on Credit registry will impact the way banks can rate their borrowers and increase their quality of information, hence improve the way clients compete for bank financing. The framework agreement on debt restructuring out-of-court will reduce administrative burden for both the borrower and the banks, and again will positively affect competition for bank financing.
The treatment of 35 groups/companies with higher debt level, aims at effectively resolving the non-performing debt of such companies in all the ways stipulated in the law. The expectation is that these

companies will restructure accordingly, having a positive impact on releasing bank resources and in returning (for some) to normal market activity. In both aspects, market competition is expected to benefit from the presence of sounder market players.
Granting loans based on tax declarations has a direct impact on competition, as it improves transparency and quality of information, thus making it much harder for undue borrowers to access bank financing and distort competition. In terms of social outcomes, the presence of more efficient market players, improvements on competition and better access to bank finance, is expected to have positive implications for private investments and employment. More competition in the market is expected to increase diversity of investments and the need for a more diverse workforce. It is expected that this drive will be positive in particular for ensuring higher employment rates for the youngsters and for women, with more diverse education background.

*Key performance indicators*

- Ratio of non-performing loans decreased to 12.89 per cent in September 2018 (because of the implementation of the NPL reform measure) from the level of 16 per cent in June 2017; and 18 per cent in the end of 2016;
- Loan portfolio expanded by 0.9% in August 2017 compared to the same period in the previous year at ALL 602.2 billion level. Accounting for write-offs, ALL 10.5 billion throughout the year, loans would have increased by 2.7%.

*Potential risks*

With regard to the activity on ''Framework agreement on restructuring of out of court debt'' there is a potential risk related to possible delays in implementation due to the discussions with banking sector.
Delays on establishment of the credit bureau can be mitigated by better coordination and communication with different government bodies and other stakeholders.

**Reform measure 10: Providing a single and transparent investment legal regime in the country**

This reform measure aims to improve the transparency, governance and predictability in accordance with the obligations stemming from the EU pre-accession process focusing on investment promotion entry and establishment policy area based on RIRA of MAP REA by encouraging private sector investment in the country.
The focus for the future development of the Albanian economic will remain the attraction of FDI with priority sectors where the Albanian economy has untapped potential in terms of natural resources and in the development of sectors that are not yet performing at full potential. These sectors are: renewable energy, tourism, agro-business, infrastructure, and services. Most of the work force in Albania is employed in the service sector, marketing numerous types of services to customers such as: food, personal care, entertainment, banking, insurance, transport, consultancy, tourism, office services, professional services, etc. Over the last 20 years, Albania has transformed from an agricultural economy to a service-oriented economy. The service sector in Albania is new and dynamic. Two main services where foreign direct investment is oriented are telecommunications and financial intermediation, 23% and 33% respectively. Telecommunications is the most dynamic service sector in the Albanian economy. FDI inflows in Albania have maintained a positive trend over the years. According to data from the Bank of Albania, in 2017 FDI inflow reached 899 million Euros. During the first half of2018, FDI reached 494 million Euros, 28% more than first half of 2017 that was 385 million Euros.
Competition for investment and the changing global economy, subsequent phases of reforms and reform action plans will be developed and implemented.
The GoA will implement the following activities based on the Action Plan 2017-2019. It will develop a unified investment law and implementing mechanisms, such as investor grievance management tracking tool, and a systemic investor grievance management mechanism.

*Activities planned*
2019

- Finalize the Unified Investment Law as well as legal acts and legal amendments necessary to put it into force by 01.01.2020.
- Increase the capacity of national investment promotion agency AIDA, to contribute effectively to investment promotion initiative, new streamlined process for dealing with investor enquiries through e-Invest
- Review domestic laws and regulations in Albania for inconsistencies with market access and non-discrimination principles (Entry Gap Analysis) and publish a consolidated list of legal entry barriers to increase transparency for investors.
- Launch a business portal to catalogue, provide and compare information on procedures to establish and operate a business in the region by building upon the initiated cooperation of regional business registration agencies and NBC/AIDA.

2020

- Upgrade domestic legislations in line with standards provided in new generation IIAs and best practices through the adoption of the new Albanian Investment law.
- Support needed for capacity building under the adoption of the new Albanian Investment law and determined by the regional investment reform agenda-RIRA.

2021

- Undertake an in-depth sector scan to identify sectors and value propositions for regional agenda, with clear horizontal links to the MAP REA pillar on smart specialization.

*Estimated cost of activities and source of financing*
Cost of activities and source of financing are detailed in table 10a and table 10b, respectively

*Expected impact on employment and gender*
FDI is a main indicator for development and growth. On average, it is expected to have positive effects of increased flow of FDI for large plants relative to small and average-sized plants in terms of employment and the average wages of both skilled and unskilled workers. From this reform, it is expected that the export-oriented assembly and manufacturing sector will be high. Women also tend to be concentrated in these sectors, such as textiles.

*Expected impact on competitiveness*
The Investor Grievance Mechanism will boost investor confidence, help retain investment and encourage existing investors to expand their operations, while addressing systemic issues in the public sector agencies.

*Key performance indicators*

- Increase of FDI (in % and amount); - Bank of Albania
- % of investor enquires completed; - e-Invest - AIDA
- Percentage of transition from enquiry to project e-Invest - AIDA.

*Potential risks*
The reform measure will engage various policy-making institutions and interested parties, and shall require timely preparation, submission and approval of relevant legal acts. As a result, risks are expected that will slow down implementation due to coordination hiccups or delays between institutions (5-10%). In order to mitigate the risk, efforts and actions will need to be taken to ensure close monitoring, reporting and regular meetings with the relevant stakeholders.

#### 4.3.4. Research, development and innovation and the digital economy

1. *Analysis of main obstacles*

Research and innovation environment in Albania is still facing challenges that slow down its transformation into a sustainable pillar for economic development. Meanwhile, the strategic and legal framework continue to be improved to facilitate such transformation in the next few years. One of the most important steps taken in 2017 was the approval of the National Strategy for Science, Technology and Innovation (NSTTI) 2017-2022.

Within the framework of scientific research, two key institutions are established to support research and innovation. National Agency for Scientific Research and Innovation (NASSRI) is tasked with the distribution of funds for scientific research projects presented by higher education institutions. It identifies the key areas of scientific research, development and innovation and estimates at a national level the national programmes in the above mentioned fields. Moreover, NASRI is in charge for dissemination of information and for technical coordination of applications in European and international programmes including also the EU framework programme Horizon 2020. Strengthening the capacities of the agency is of crucial importance for a solid development of scientific research in the country.

National Agency for Funding Higher Education Institution" (NAFHE) is another key institution (established in 2017) responsible for distribution of public funds to public universities. Until its full operation, its competencies are currently fulfilled by Ministry of Education, Sport and Youth (MoESY).

Another important legal development is the approval of Decision of Council of Minister No. 165 dated 21.03.2018 "On the methodology of scientific research evaluation of universities' department" which make possible the establishment within 2019 the web–based platform ACRIS-Albania Current Research Information System which will facilitate the process of evaluation of research activities across the public universities department and based on the quality ranking provide a solid ground to claim public funding. Other secondary legislation stemming out of the of Law 80/2015 (on Higher Education and Scientific Research) concerning research and innovation is in the process of finalisation, which will avoid obstacles and encourage better cooperation between the academic world and the business or market sector.

Albania is in the process of adapting a Smart Specialization Strategy. In April 2018 a working group was established by the Minister of Education, Sport and Youth. The WG has designed a Road Map of activities that will be undertaken until its final approval, foreseen for early 2020. The Albanian digital single market represents a new approach to boost growth and the measures to achieve it are part of Albania Digital Agenda 2015-2020. A new draft law "on research" has been finalised and is planned to be presented in the parliament in 2019.

The telecom market ICT sector is one of the important economic sectors in the country. Digital infrastructure and broadband is crucial for all other developments in digital integration and it impacts all sectors of the economy. Digital infrastructure is a precondition for developments of digital economy in innovative industry, e-government, e-health, provision of interoperable services, provision of cross border services etc. The development of broadband networks asks for huge investments and the private sector is the main contributor. In Albania the telecommunication market is fully opened for competition since 2008. The mobile broadband is provided widely based on LTE. There are a great number of ISPs in the market offering broadband connections based on fixed network. Triple/quarter play services voice, internet, TV are provided since years. The Internet users and fixed broadband subscriptions in Albania are increased yearly by 10-15%. However, the fixed broadband penetration remains in very low levels compared with other countries in the region and with EU.

Overall, the broadband situation in Albania is as follows:

- There is a huge gap of fixed penetration between urban and rural areas;
- Fixed penetration is low, approximately 38% of households;
- Mobile penetration is higher than fixed, the coverage of population with LTE is over 85%;

- Mobile broadband users achieved over 2 million by the end of 2017 which is 20% more compared with a year ago and over 50% compared with 2015;

Currently the situation of broadband connectivity in public education is far from 30 Mbps. The maximum bandwidth provided is up to 8-10 Mbps and half of schools are without or with very limited connectivity. The same situation exists also for the public health institutions, which makes implementation of e-Health services difficult, especially in country's remote areas.

, The Government of Albania has identified digital connectivity and broadband infrastructure as a key priority in the strategic documents such as National Strategy for Development and Integration, Digital Agenda Strategy Economic Reform Program (ERP) 2018-2020. The National Broadband Plan; The second strategic priority of the Digital Agenda 2020 "Policy for the development of electronic communications in all sectors (health, education, environment, agriculture, tourism, culture, energy, transport, etc.)" highlights development of advanced electronic communications infrastructure main directions, together with fast and super-fast broadband. This will facilitate meeting the demand for access to fast and superfast networks for all economic sectors, citizens, businesses and the government, as a part of a large consumer of ICT.

Albania has approved new law (Law no. 120, dated 24.11.2016) for broadband development.[25]

This law aims to increase the investment, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as will increase the competition. In addition, there are some social and environmental benefits.

The implementation of the Law no. 120/2016 is in early phases.

A fully-fledged Feasibility Study on broadband development will be prepared with the support of WBIF during 2018-2019. This study aims to support the preparation of a National Framework Program for the Development of Broadband Infrastructure in Areas Lacking from the Sufficient Commercial Interest for Investment as well as to achieve the objectives for broadband connectivity with at least 30 Mbit/s. Specific objectives of the project will address Internet Broadband (IBB) accessibility and connectivity in cross-border areas of the region, and provide connectivity not only for education institutions, hospitals, public institutions and LGUs, but also households. The project will raise opportunities of the business in all economic sectors, in social inclusion of all participants, and community through ICT access. Furthermore, broadband connectivity and ICT access are prominent needs to ensure economic growth and competiveness and create an investment-friendly environment for the private sector. Broadband development is in line with EU Digital Agenda, and one of WB6 priorities of the Multiannual Action Plan for Regional Economic Area (MAP-REA) endorsed during the Trieste Summit held on 12th of July 2017.

### 2. *Reform measures*

**Reform measure 11: Improve institutional capacity of the research and innovation system**

*Activities planned*

2019

- Strengthening the capacities of National Agency for Scientific Research and Innovation
- Increasing funding for National Research and Development Project and Bilateral or International Research Project.
- Establishment and operation of the web–based platform ACRIS-Albania Current Research Information System.

2020

- Full operation and strengthening the capacities of the National Agency for Funding in Higher Education
- Increasing funding for National Research and Development Project and Bilateral or

[25] Law "On the development of high–speed electronic communication networks and the provision of the right of way" that fully approximates Directive no. 2014/61/EU.

International Research Project
- Funding for Collaborative Research Project Academia–Business
- Funding for PhD Projects.

2021
- Strengthening the capacities of National Agency for Scientific Research and Innovation
- Increasing funding for National Research and Development Project and Bilateral or International Research Project
- Funding for Collaborative Research Project Academia –Business
- Funding for PhD Projects.

*Estimated cost of activities and source of financing*
Expected budgetary impact for 2019 is be 5.2 million Euro (state budget and external funding.)

*Expected impact on employment and gender and competitiveness*
Strengthening of institutional research capacities will contribute toward improving participation in Horizon 2020 programmes and will strengthen links between academia, business and government in the mid to long term. Feeding business with research and innovation will make Albania more competitive economically.

*Key performance indicators*
The increased participation of Albania in international research projects.

*Potential risks*
Challenged to implementation of the above-mentioned measures in the area of research and innovation include difficulties in inter-institutional coordination as well as budget constraints. However, Strategy for Science foresees increased funding and ways to develop horizontal linkages between relevant institutions and stakeholders

**Reform measure 12: Development of the broadband infrastructure for digital economy**
The adoption of the new law and the respective regulatory acts, allow the establishment of the right framework for the development of high speed electronic communication networks, promoting the joint use of the existing infrastructure and the development of new physical infrastructure with a view to reduce costs through cooperation, infrastructure sharing and synergies with other utilities, the coordination of civil works and the establishment of the single point of information. Also the new law addresses the right of way issues. Part of the plan to implement this reform measure during the coming years will be:
- Review of the action plan of National Broadband Plan (NBP);
- Conduct the Feasibility Study and Cost-benefit analysis for Regional Broadband Infrastructure Development.
- Establishment of regional/national Broadband Competent Offices
- Launch pilot projects for development of broadband infrastructure in rural and remote areas
- Establishment of synergies with utility projects: follow up recommendations of Balkan Digital Highway study.

*Activities planned*
2019
- Approval of new National Broadband Plan;
- Conduct the Feasibility Study and Cost-benefit analysis for Regional Broadband Infrastructure Development.

2020
- Establishment of regional/national Broadband Competent Offices;

- Launch pilot projects for development of broadband infrastructure in Zone 1 (rural and remote/tourism areas. To be decided based on results of Feasibility Study).

2021

- Launch pilot projects for development of broadband infrastructure in Zone 2 (rural and remote/tourism areas. To be decided based on results of Feasibility Study).

*Estimated cost of activities and source of financing*

1. Approval of New National Broadband Plan
   - EUR 5500 from the state budget for the review of the action plan part of the National Broadband Plan.
2. Feasibility Study and Cost-benefit analysis for Regional Broadband Infrastructure Development
   - EUR 520000 from WBIF grant.

The budgetary impact for the National Broadband Plan review is only administrative cost of staff. The cost of the feasibility study will be covered by WBIF.
The total project for broadband development is estimated 48 million of Euro with different contributions.
The investments for broadband development infrastructure in zone1 and zone 2, etc. will be part of this project.

*Expected impact on employment and gender*

Development of broadband is expected to increase the number of employments and also to create more possibilities for online working for gender. Referring to study "*The Impact of Digital Transformation on the Western Balkans – Tackling the Challenges towards Political Stability and Economic Prosperity"*[26], broadband investments could potentially contribute to the dynamics of new job openings in Western Balkan economies. It is estimated that broadband investments of 100 million euro could induce new jobs in a range from 3,000 to 10,000. As a result of lower labour productivity (more labour is required per unit of output), employment potential of broadband investments is the highest in Albania about 10000.
According to the study, a demand stimulus through 100 million euro broadband investments would induce additional GVA (gross value added) up to 0.9 percent in Albania. In addition, the broadband investments will improve the overall productivity as the relative effects on GVA exceed the effects on employment. By adding new economic benefits and job vacancies, broadband investments not only induce economic benefits, but also promote greater political stability, higher quality of public services. The reform creates the possibilities to address gender issue in ICT through increase possibilities for women as online workers from home in remote, rural areas.

*Expected impact on competitiveness*

The proposed reform measure is foreseen to increase the investments in the country, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as increase the competition. The development of rural and remote areas through usage of ICT for businesses and farmers, and the resultant access to knowledge and state of art of technological methods as part of this reform are expected to improve the competitiveness in these areas.
Some of the social benefits of the reform are: better broadband internet coverage which translates to social and territorial cohesion; increase of synergies across sectors e.g. smart grids and intelligent transport systems; less duplication of civil works which means less digging and/or noise pollution; improved business climate via transparent and simpler procedures for construction permits etc.

*Key performance indicators*

[26] https://wb6digital.files.wordpress.com/2018/01/wb6-study.pdf

- Increase of penetration of fixed broadband, including in rural areas;
- Increase of number of public schools and health facilities with broadband connection;
- Increase of broadband connection for SME;
- Increase percentage of broadband connections with >30 Mbit/s.

*Potential risks*
The digital infrastructure and other infrastructures such as transport and energy project need to be coordinated in order to benefit from synergies and joint investments (15%)
Lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector (15%). Monitoring, reporting and continued close cooperation between stakeholders.

### 4.3.5. Trade-related reforms

1. *Analysis of main obstacles*

The existence of non-tariff barriers remains a concern, recognized by main trading partners and as confirmed by all international reports, hindering the potentials of trade
Albanian trade regime has not undergone any substantial changes and maintained its overall level of openness during the last year. Trade openness for 2017, as a share per GDP, reached at 58%, whereas the exports/imports coverage coefficient showed a slight increase. Albanian trade exchange showed an improvement during 2017 having an increase in exports at (12.1%) and an increase in imports at (8.1%).
The main EU partners for exports were Italy and Greece and for import were Italy and Germany. During 2017, the exports to Italy and Greece were 69.4% and 5.6% of total export to EU; while imports from Italy and Germany were respectively 46.5% and 13.4% of total imports from EU. The exports to Italy in 2017, compared with the previous year, increased by 11.5% and imports increased by 8.3%; while exports to Greece in 2017, compared with the same period of 2016, increased by 10.2% and imports from Germany decreased by 7.4%.
The CEFTA Additional Protocol has entered into force for five CEFTA Parties and SEED+ will start the effective implementation for electronic exchange between CEFTA Parties.
Strengthen the capacities of the National Committee for Trade Policy Coordination and operational capacity of the units in charge of EU, CEFTA and WTO capacities needs to further strengthening.
Albania is expecting the first operators to apply for the AEO status, many meetings informing business and raising the awareness for acquiring the AEO status.
At regional level, CEFTA Parties are under discussion for the adoption of the Additional Protocol 6.
As regard to the Additional Protocol 7 "Dispute Settlement Mechanism" in CEFTA, external expert prepares the draft protocol and each CEFTA Party is under internal procedures for establishing of Negotiating Team.
Albania remains highly committed to strengthening the capacity of the National for Trade Facilitation Committee. Strengthening administrative capacity and trade qualifies staff remains a challenge.

2. *Reform measures*

**Reform measure 13: Facilitate trade and reach greater synergy in the implementation of national trade facilitation measures and MAP REA**
The reform measure will continue to focus in the implementation of the national plan with a particular attention to the electronic data exchange, effective implementation of the provisions of AP 5 and closer cooperation with private sector. The CEFTA Additional Protocol 5 is ratified by Albania and entered into force for five CEFTA Parties.
Additional Protocol 5 and its technical annex cover data, which are committed by CEFTA Parties to exchange electronically. In order to implement the commitments arising for this protocol, at regional level, the highest priority will be given to preparations of the implementation provision of the mutual recognition of border documents and authorized economic operator.

Better and greater integration to regional market, with the view to increase the export share to the region, and better address the impediments to trade a comprehensive approach will be introduced in implementing simultaneously national and regional measures in the area of trade facilitation. Although measures under MAP REA to facilitate trade are mainly regional and the National Plan for trade facilitation is e complementary instrument to meet the objectives.
Efforts will be invested to simplify clearance procedures, including reduction of burdensome sanitary and phytosanitary inspections during cross-border trade, improvement of interagency information exchanges, synchronize the working hours of customs and technical control agencies, etc.
The National Single Window is an objective to support trade facilitation and a commitment under WTO Trade Facilitation Agreement. The National Single Window will improve transparency and integrity, lower trade transaction costs and improve inter agency coordination and reduce the time taken to clear goods.

*Activities planned*
2019
- Strengthen the capacities of the NTFC Secretariat by improving the structure;
- Promote AEO concept and with relevant stakeholders and mutual recognition of AEO programs under AP5 with private sector;
- Adoption of the National Single Window.

2020
- Implementation of the National Single Window.
- Implementation to install and run SEED+ in order to secure data exchange at regional level as foreseen by the AP5.

2021
- Continue implementation of the National Single Window;
- Implementation to install and run SEED+ in order to secure data exchange at regional level as foreseen by the AP5.

*Estimated cost of activities and source of financing*
The estimated cost for adoption and implementation of National Single Window is approximately 6.2 million Euros for 5 years. World Bank Trade & Transport Facilitation Program – including budget and timeline of activities.

*Expected impact on employment and gender*
A direct impact will be in increasing the volume of trade, boosting economic growth, promoting new jobs and new opportunities.

*Expected impact on competitiveness*
The establishment of the National Single Window is expected to reduce the cost and time of cross-border trade procedures, therefore it is expected that it will stimulate cross-border trade and contribute positively to economic growth, while possibly bringing positive effects for productivity.

*Key performance indicators*
- Exports share to the region;
- Reduction in transaction cost;
- Time taken to clear goods.

*Potential risks*
There is a political risk associated with the reform measure, due to the fact that most of the measures are at regional level, between CEFTA Parties (25%). Low capacities is another risk (10%).

### 4.3.6. Education and skills

*1. Analysis of main obstacles*

The education system in Albania is managed by a host of different institutions: early childhood education is mainly a municipal responsibility, pre-university general education (grades 1-12) falls mainly under the jurisdiction of the Ministry of Education, Sport and Youth (MoESY), pre-university vocational education is managed by Ministry of Finance and Economy (MFE) and higher education is organised largely by public – and some private – universities. This division has helped put a more targeted institutional focus on each part of the education system and achieve a more efficient public sector resource allocation.

In the past several years, the entire education system has undergone necessary reforms, which have at the same time stressed the system by continuously demanding it to change. Luckily, the initial results of these reforms are positive and indicate a move in the right direction.

In pre-university education, Albania has adopted a new 'competence-based'[27] curriculum – and developed a set of textbooks to match the new content and methodology - which has been implemented gradually from year 2014. Science and Mathematics textbooks have been adapted from prestigious publishers like Cambridge, Oxford and Pearson, which markedly improved the tools that students and teachers use in classrooms. In 2018, the last part of the curricula, namely grade 5, is being piloted and ready to be implemented in all schools in year 2019/2020. This will also mark the end of the curricular reform and allow MoESY to shift its focus toward assessment and further improvement of the curricula.

To ease the education burden on families, the Albanian Government has decided on a 'free textbook policy' for students of grades 1-4 (in 2018) with the aim of including all students of grades 1-9 by the end of this government mandate.

Another important intervention in 2015 was the reform of the hiring process for teachers. The platform "Teacher for Albania" ranks teachers based on their career achievements and an automated test results, enabling schools to hire the top teachers first. Close to 5,000 teachers were hired through the platform, which has improved the quality of teachers in schools and combated corruption and nepotism in teacher hiring. In 2018, a decision of the Council of Ministers (No. 216, 20 April 2018) raised the bar for university entries for degrees that produce teachers and gave scholarships to top students in attending these programs. This measure has incentivised better performing students to become teacher candidates. Also in 2018, MoESY begun a process of improving and harmonising the teacher training programs in public universities, to make them more in line with the changes in pre-university education curricular reform.

At the same time, while the bar has been set higher for academic degrees, in 2018 more professional/vocational 2-year degrees were established by public and private universities. These programs allow youth who do not want to follow an academic career to enter the job market faster and better prepared. In 2017 there were 23 programs available (930 students) while in 2018 the number of 2-year programs increased to 70 (1,700 students). As the entry bar is raised higher for academic degrees, more 2-year professional degrees will become available.

In 2018, MoESY and the British Embassy in Tirana agreed upon a joint project to build digital skills and teach coding to more than a third of students of grades 6-9 (120,000 students) in Albania over the course of 3 years. At the same time, an intensive focus has been put on inclusiveness – making sure that every child reaches her or his full potential within the education system. Two key measures undertaken in 2018 include bringing 800 special education teachers to work with special needs students and transferring 3,000 rural students studying in small multi-grade classrooms to nearby larger schools where they can learn in classrooms with their peers.

[27] UNESCO definition of competence based curriculum: "A curriculum that emphasizes the complex outcomes of a learning process (i.e. knowledge, skills and attitudes to be applied by learners) rather than mainly focusing on what learners are expected to learn about in terms of traditionally-defined subject content. In principle such a curriculum is learner-centred and adaptive to the changing needs of students, teachers and society. It implies that learning activities and environments are chosen so that learners can acquire and apply the knowledge, skills and attitudes to situations they encounter in everyday life."
http://www.ibe.unesco.org/en/glossary-curriculum-terminology/c/competency-based-curriculum

The reform of the vocational education and training system in Albania is focused on improving access, quality and linkages with the labour market. Harmonising the skills offered by the VET with labour market needs, as well as motivating the private sector to become close partners, are considered the biggest and most difficult challenges.
The new VET Law, approved in February 2017, created a great space for furthering the reforms of the VET system in Albania, and for its implementation, the working group has drafted and developed 21 sub-legal acts. Currently, 8 acts have been finalized (guidance) and 5 Decisions of the Council of Ministers are in the process of being approved.
The National Employment Service in cooperation with UNDP carried out a skill need analysis (SNA). The main aim of SNA 2017 was to provide a snapshot of skills needs and skills shortages, as well as their dynamics in the country, as reported by enterprises and employers. SNA 2017 is the third in a series of SNA surveys for Albania and follows the same methodology. Skill needs analyses study published: http://www.al.undp.org/content/dam/albania/docs/misc/skills.pdf.
In 2017, 36,436 secondary education students graduated, of which 14.3% were graduates of vocational education, an increase of2.3 percentage points compared to 2016. Participation in secondary vocational education has been on a steady rise in recent years. In the 2018-2019 academic year, 20.6% of the total secondary education students participated in vocational education.

Table: Enrolled in Vocational Education by years and gender

| | | | | | | *number* |
|---|---|---|---|---|---|---|
| **School / academic year** | **2013-14** | **2014-15** | **2015-16** | **2016-17** | **2017-18** | **2018-2019** |
| **Total:** | 14365 | 17203 | 17738 | 18750 | 19019 | 19,260 |
| **Male** | 11953 | 14592 | 15165 | 16105 | 16304 | 16,158 |
| **Female** | 2412 | 2611 | 2573 | 2645 | 2715 | 3,102 |

Source of information: Administrative data from Ministry of Finance and Economy

A total of 19,296 students enrolled in secondary VET for the new academic year 2018-2019. The number of students from rural areas and marginalized groups has increased. In 2018, 519 R/E and 108 PwD registered in secondary VET, compared to 351 R/E and 91 PwD in 2017-2018. Currently 43% of students are from rural areas.
Data from the Tracing System developed for VET graduates indicate that 46.9% of VET graduates from the 2016-2017 academic year have been employed. Based on the surveys, 72% of the target group interviewed are active, studying and working and 28% are currently unemployed and are not attending further studies. Compared with the tracing survey of the graduates at the Public Vocational School of vocational schools in 2015 - 2016, there is an increase of 15% of employed students.
With regards to the provisioning of short-term vocational training courses through the Regional Directorates of Public Professional Training, during January-December 2017, the number of registered trainees amounted to 17,297 individuals (out of which 6,200 were women), and a total of 15,71 1individual successfully complete the training and were certified. For the period January – September 2018, 12,600 persons were registered (of which 4,856 women) and 11,259 persons were certified. Analysis of Tracing System data indicate that approximately 42% of certified trainees were subsequently employed.
In 2018, funding for vocational education schools increased by 8.2% compared to the year before. State budget allocations supported the reconstruction and construction of new production basis in 9 vocational schools, as well as the purchase of needed equipment.
Continued professional development of teachers is one of the main pillars of quality assurance in vocational education. In 2015 – 2016, the National Agency for VET and Qualifications (NAVETQ), with support from the GIZ, launched the Basic Pedagogy programme for VET teachers and practice

instructors from VET providers, starting with the development of materials and the first 'Train of trainers' course. The programme was initially conceived as an initial teacher training but currently is considered as a valuable investment in improving the quality of VET provision in Albania. The aim is that all VET teachers who are currently in the system, as well as any future VET teachers/ instructors, attend this programme with a view to considerably enhance their pedagogical skills in everyday teaching practice. The programme was fully rolled out in 2016 – 2017. To date, around 289 VET teachers and instructors from different occupational fields have gone through the training and been certified for successful attendance. Currently, NAVETQ with the support of donors have in process of training for 2018, 114 teachers and instructors, Also NAVETQ is to coordinating the activities for the training of 70 teachers and instructors in Elbasan. By the end of the year, we intend to train 196 teachers / instructors.

During 2018, 10 additional vocational qualification descriptions / standards have been developed and 6 frame curricula, all accessible online. Currently, NAVETQ is in the process to develop three brand new qualifications relating to Agro tourism, Travel and Tourism Services and Hotel and Restaurant Services. Revised curricula aim to include marginalized groups to attend vocational education.

In the framework of the regional cooperation, in December 2017 and July 2018, the Austrian Economic Chamber, Chambers' Investment Forum and ERI SEE, followed up the discussion on initiating the development of the knowledge-based platform on WBL in SEE countries. The purpose of the meetings was to map already existing instruments for the implementation of different formats of work-based learning, as a foundation for an on-line database, which will make these instruments available to all interested parties, in order to feed up the VET system in respective countries to make use of appropriate instruments of work based learning.

Following up on the request of the Ministry of Finance and Economy for drafting a national regulation of core elements of WBL, a workshop was organized with the joint cooperation of MFE, NAVETQ, ETF and Kulturkontakt. Relevant inputs of key stakeholders were collected about core aspects of WBL that should be nationally regulated in order to clarify roles and responsibilities between VET schools and the private sector and to enhance the quality of WBL provision.

Lifelong learning and training are also considered instrumental to foster enterprise competitiveness and enhance labour productivity, as well as to improve job quality. Referring to the results of the Adult Education Survey 2017, it results that lifelong learning participation in the 25-64 age group has increased compared to 4 years ago by 7.2% (in 2017, 9.2% of the 25- 64 years of age have participated in lifelong learning). The percentage of female in lifelong learning participation is 0.7% higher than males (9.5% of women versus 8.8% of males).

2. *Reform measures*

**Reform measure 14: Finalisation of the pre-university curricular reform, training and hiring of teachers**

Implementing new competence based curricula for grade five, which closes the process of curricular and textbook reform for pre-university education by year 2020. By 2021, all students attending compulsory education (grades 1-9) will receive free textbooks. Continuing to raise the bar for entries in teacher training programs which continuing to improve the teacher training programs. This will improve basic skills (mathematics, literacy and science) in pre-university education and prepare youth for future studies or career.

*Activities planned*

2019

- Implement reformed grade 5 curricula in all schools;
- Approve new textbooks for grade 5 and include them in 'free textbooks' policy;
- Implement a new and improved teacher training program;
- Improve the teacher-hiring platform "Teacher for Albania".

2020

- Assess the new curricula – based also on 2018 PISA results;
- Inclusion of grades 6 and 7 in the 'free textbook' policy.
- Further raise the bar for entries in teacher training programs.

2021

- Amend the curricula or its implementation according to the results of the assessment;
- Inclusion of grades 8 and 9 in the 'free textbook' policy.
- Assessment of the training and hiring of teachers reform.

*Estimated cost of activities and source of financing*
For 2019, costs are estimated at 5.2 million Euro for free textbooks and 320,000 Euro for curricular reform. Source of funding is the state budget. For pre-service teacher training reform, in 2019 the costs will be covered by universities.

*Expected impact on employment and gender; competitiveness*
There is no direct and short-term effect on employment. In the long term – according to studies like the OECD PISA study that make a connection between better results in basic skills and economic development of countries – improved teacher quality increases results in basic skills, which enables this generation of students be better prepared for the job market: as either employees or job creators.

*Key performance indicators*
OECD PISA results on basic skills of 15 year olds, measured in 2018 and again in 2021.

*Potential risks*
Budgetary constraints for 'free textbook' project.

**Reform measure 15: Inclusive education**
Continued reduction of students attending multi-grade and low quality classes and continued increase of special education teachers into the public education system.

*Activities planned*
2019

- Transferring 3,000 rural students to nearby better-quality schools.
- Increase the number of special education teachers to 900 (and training).

2020

- Transferring 3,000 rural students to nearby better-quality schools.
- Increase the number of special education teachers to 1,000 (and training).

2021

- Transferring 3,000 rural students to nearby better-quality schools.
- Increase the number of special education teachers to 1,100 (and training).

*Estimated cost of activities and source of financing*
Estimated cost for special education teachers for year 2019 is 6.8 million Euro (state budget).

*Expected impact on employment and gender; competitiveness*
There is no direct and short-term effect on employment. In the long term, giving better education opportunities to rural and special needs children will increase their chances to achieve the skills needed for joining the job market and leading independent lives as adults.

*Key performance indicators*
Improved literacy results for affected students compared to the 2017 baseline.

*Potential risks*

Local communities may resist transfer of students to nearby school, hence closing down the classrooms in their village.

**Reform measure 16: Expanding adoption of digital skills to schools**
Over the course of three years, 120000 students and 8000 teachers will be equipped with digital and coding skills.

*Activities planned*
2019
- Training 2,500 teachers and implementing the project for 40,000 students.

2020
- Training 2,500 teachers and implementing the project for 40,000 students.

2021
- Training remaining 3,000 teachers and implementing the project for 40,000 students.

*Estimated cost of activities and source of financing*
Estimated costs are 3 million Euro over the course of 3 years, covered by the Government of the United Kingdom. In addition, some 500,000 Euro will be spent only in 2019 for internet provision to schools.

*Expected impact on employment and gender; competitiveness*
There is no direct and short-term effect on employment. In the long term, considering that digital skills are becoming necessary for life and work, building these skills will make students better prepared for the job market: as either employees or job creators.

*Key performance indicators*
Improved digital skills for participating students; concrete indicators to be designed and defined in 2019 and monitoring to begin in 2020.

*Potential risks*
Lack of adequate infrastructure in schools to enable continuous and sustainable development of digital skills beyond this project.

**Reform measure 17: Modernisation of the pre-school education system financing**
In the framework of the effective fiscal decentralisation policies, the Ministry of Finance and Economy, in cooperation with the Ministry of Education, Sport, and Youth have worked to ensure that the transfer of functions/responsibilities at the local level is accompanied with the establishment of an appropriate and effective financing scheme that seeks the constant improvement of quality services.
In this respect, in the budget for the fiscal year 2019, a new distribution formula for funds in the pre-school education has been drafted that implements the legal framework for pre-university education, local governance and finances based on international beet practices.
The budget for 2019 marks the start of an important reform measure that sets a new standard in the pre-school education. Beginning from 2019, in accordance with the legal framework in force and international best practices, the funds for pre-school education will be primarily distributed on the basis of the number of pupils, as the best indicator for needed funds and services, and partially will be based on the current system of distribution of funds according to the number of nurses transferred in 2016 until 2018. In the budget for 2019, the wages fund will be distributed based on kids' number. In particular, 60% of the wages fund for nurses will be distributed based on kids' numbers (aged 3-6) and 40% on the basis of number of nurses. The reform measure will ensure a proportionate distribution of funds based on the number of kids that need to be provided pre-school education, but

at the same time ensures a gradual transition that minimises costs, by saving 40% of the current system.

*Activities planned*

2019

- Employment of 440 nurses in 32 municipalities across Albania by local government institutions;
- Reporting on the progress of the reform measure;
- Monitoring and follow up of implementation of this reform measure and effects on the improvement of the quality of pre-school education.

2020

- Discussion with local government units on the progress and improving the reform measure for the upcoming years;
- Monitoring and follow up of continued implementation of the reform measure in pre-school education by local government units;
- Assessment of effects on the pre-school education.

2021

- Discussion with local government units on the progress and improving the reform measure for the upcoming years;
- Monitoring and follow up of continued implementation of the reform measure in pre-school education by local government units;
- Assessment of effects on the pre-school education.

*Estimated cost of activities and source of financing*

The cost of the reform measure is 2.64 million EUR and is covered by the increase of unconditional transfers for local government units in the medium term budget programme for 2019-2021. Source of financing will be the increase of unconditional transfer year on year with the purpose of covering and creating the continuity of the reform measure through the years.

*Expected impact on employment and gender*

The reform measure will ensure an increase in the number of nurses from 4410 to 4850 that is a 440 increase in the number of overall nurses, to be spread across 32 municipalities that have immediate need for raising the number of nurses. This is a gender-neutral reform measure, even though it will in essence help increase the number of nurses by promoting employment of women in the education sector.

*Expected impact on competitiveness*

The reform measure is not directly linked to the increase of competitiveness in the market so long as it is related to the increase of budgetary support with a view to increase quality of providing pre-school education. In this regard, the growth goes entirely towards improvement of the pre-school education service that is offered by local government units.

*Key performance indicators*

- Reduction of class/group size in kindergartens from the current rate of 18 kids per nurse to 15 kids per nurse.
- Increase of funds in municipalities that have real and immediate need to increase the number of nurses by lowering the maximum number of groups from 26 or 23 kids per nurse to 18 kids per nurse, as a precondition for improving the quality of education for children aged 3-6 enrolled in public kindergartens.

*Potential risks*

A potential risk for the implementation of the reform measure is the non-completion within a short timeframe of the number of employees by local government units. In order to mitigate the potential risk, measures have been taken by providing in the sub legal framework for implementation of the budget for procedures and regulations in respect of implementation of this fund for the support of the pre-school education reform

**Reform measure 18: Improve the quality and coverage of VET while ensuring linkages with the labour market**

The National Employment and Skills Strategy 2014 - 2020, is the main policy document that guides the implementation of actions related to employment and skills development in the country. The objectives will be achieved through several activities related to the modernization of VET involvement, aiming at the development of the labour market. Provision of quality vocational education and training for young people and adults are the strategic priorities of VET, in the National Strategy for the period 2014-2020. The main objective of the VET system reform is to increase the quality of education outcomes, the development of qualifications, the attractiveness and relevance of the vocational education system and the prediction of skills to correct discrepancies and improve skills recognition.

*Activities planned*

2019

- Roll out the VET offer optimization plan in line with regional skills development needs and the process of re-organization of VET providers (MoFE and NAVETQ, VET providers);
- Continue the roll out of the quality concept both at the system level and at the level of providers. Finalize the national VET provider optimization plan in line with regional skills development needs; preparing plans, developing capacities and legalizing the setting up of Multifunctional VET centres in the country (MoFE and NAVETQ, VET providers);
- Skills development for VET teachers and trainers (by drafting policies for recruitment, professional development, assessment of competences and training of VET teachers and trainers) (MoFE and NAVETQ);
- Carry out the self-assessment of all VET providers.

2020

- Improving the quality of VET through investment in infrastructure, programs, and professional development of teachers;
- Development of the process of introducing elements of the dual system of vocational education;
- Developing the competencies of VET teachers as well as teacher trainers (initial and on-going vocational training).

2021

- Improving the quality of VET through investment in infrastructure, programs, and professional development of teachers;
- Development of the process of introducing elements of the dual system of vocational education.

*Estimated cost of activities and source of financing*

The costs for implementation of the VET measures are included in the Medium Term Budget Program. The mid-term budget 2018-2019, is planned for a total for the three years 83.5 million EUR. For the year 2019, planning for VET is in total 26.7 million Euros with an increase of 11.2% for VET compared to last year.

90940

Roll out the VET offer optimization plan in line with regional skills development needs and the process of re-organization of VET providers - EUR 13.6 million from state budget, and approximately EUR 6.3 million from donors.

Skills development for VET teachers and trainers (by drafting policies for recruitment, professional development, assessment of competences and training of VET teachers and trainers. State budget funds EUR 90940 and donor financing is EUR 60000.

Continue the roll out of the quality concept both at the system level and at the level of providers. Finalize the national VET provider optimization plan in line with regional skills development needs; preparing plans, developing capacities and legalizing the setting up of Multifunctional VET centres in the country - Approximately EUR 5.8 million and EUR 6 million from donor funding.
Increase access to VET from rural areas and vulnerable groups – State budget 90000 EUR.

*Expected impact on employment and gender*
The reform aims at ensuring inclusive and equal quality education and promoting lifelong learning opportunities for all. Also, the refocus aims at skills development, especially regarding access to vocational skills for employment, decent work and entrepreneurship; the elimination of gender disparity and ensuring access for the vulnerable.

*Expected impact on competitiveness*
The reform seeks to equip young people with the training and needed skills and qualifications to compete in the labour market and increase their employment opportunities.

*Key performance indicators*
- % of graduates now in employment;
- % of teachers trained in lifelong training;
- % of students in Vocational Education compared to students in general education.

*Potential risks*
- Lack of continuous training for teachers with new technology. (15%) Mitigating actions: Increase capacity building of teachers through training schemes.
- Inadequate level of coordination with businesses for better support on VET. (10%) Mitigating measures:
- Lack of specific regional assessment for skills lacking in labour market. (10%) Mitigating measures: Conduct studies for assessing skills lacking in the labour market.

### 4.3.7. Employment and labour markets

1. *Analysis of main obstacles*

**The labour market situation**
Labour market data suggest that the economic growth experienced in Albania over the last four years has been translated into significant labour market improvements. Economic growth and job creation have moved together.

**Labour market situation, referring to the Labour Force Survey, in percent (INSTAT)**

| | **2016** | **2017** | **Q2/2018[GP1]** |
|---|---|---|---|
| labour force participation | 66.2 | 66.8 | 68 |
| men | 74.1 | 75.8 | 76.6 |
| women | 58.3 | 57.7 | 59.5 |
| Total working age population (aged 15-64) | 56.2 | 58,2 | 59.2 |
| The employment rate for women | 49,6 | 50,3 | 52.2 |
| The employment rate of men | 61,9 | 64.3 | 66.3 |
| The youth employment rate (age 15-29) | 32.4 | 33.8 | 37.9 |
| Total Unemployment rate | 15.2 | 13.7 | 12.4 |
| Unemployment rate form women | 14.4 | 12.6 | 11.8 |
| Unemployment rate form men | 15.9 | 14.6 | 12.9 |

| | | | |
|---|---|---|---|
| Youth unemployment rate (age 15-29) | 28.9 | 25.9 | 22.6 |
| NEET | 30,0 | 29,7 | - |

**Administrative data from the National Employment Service and achievements, 2018**

| | 2016 | 2017 | Jan - Sep 2018 |
|---|---|---|---|
| The total of unemployed job seekers | 93,889 | 83,497 | 67,625 |
| Women Unemployed job seekers | 49,735 | 44,220 | 35,422 |
| Unemployed job seekers, beneficiaries of economic aid and unemployment benefits | 45,738 | 41,251 | 21,692 |
| Unemployed job seekers from economic aid | 42,029 | 41,751 | 19,145 |
| Unemployed job seekers from Unemployment benefit scheme | 3,709 | 1,959 | 2,102 |
| Long term unemployed job seekers | 54,323 | 42,594 | 35,574 |
| Unemployed job seekers from special groups | 7,600 | 7,162 | 6,614 |
| Youth unemployment job seekers, age 15-29 | 19,174 | 15,767 | 12,817 |
| No. of job seekers employed through intermediation services | 25,170 | 23,136 | 32,622 |
| Unemployed job seekers involved in employment promotion programs | 5,211 | 5,264 | 3,369 |
| Job vacancies advertised in employment offices | 38,511 | 40,013 | 47,124 |
| Unemployed job seekers, who attend free professional courses at public centres | 12,710 | 9,461 | 6,159 |

Despite significant improvements in the country's labour market performance, Albania continues to face challenges in securing safe and productive employment for its population, promoting higher and more productive jobs and ensuring the integration of vulnerable groups in the labour market, in particular women and youth.

Providing labour market information is one of the four main functions of the National Employment Service (NES). Labour Market Surveys and Assessments provide up-to-date information on the situation. In addition to the context indicators provided by the labour force survey, developed by INSTAT every 3 months, NES periodically conducts:

- Labour Market Skills Needs Assessment, an important tool for reorientation the National Employment Service activity, related to vocational education and training and employment mediation. So far four studies have been carried out, the last being in 2017.
- Monitoring and Evaluating Employment Promotion Programs, which measures the effectiveness of active labour market policies in the employment of unemployed jobseekers. Four evaluation reports were made, the last being in 2017.
- Tracking System for Post-Formation Employment Trend, an important tool for assessing the performance of Public Education and Training Providers in relation to employability of graduates and graduates, certified, such as, and helps in the process of harmonizing the educational offer with labour market requirements. It is in process of realization for the first time of this evaluation.

The labour force survey, periodically conducted by the INSTAT, is a very useful policy orientation study, giving a general picture of the labour market situation. The administrative data of the employment offices are related only to the unemployed who are addressing the employment office to obtain information on the labour market, orientation and counselling for employment and training, or to open the unemployed jobseeker's card, and how to so that they can benefit from employment, vocational training and employment contracts. Combined, these data sources help to design policies and employment programs more efficiently for target groups.

**National Employment and Skills Strategy (NESS) 2014 – 2020)**

NESS goal is to promote jobs and skills opportunities for all Albanian women and men. This strategy represents one of the strongest commitments of the Albanian government to citizens' welfare. The implementation of the EU IPA SRC Budget Support Programme is under implementation and 9 out of 10 target indicators of 2016 were achieved and the first variable tranche of 6.3 million EUR was disbursed in 2017. In 2017, 6.5 out of 7 target indicators were achieved by SRC and the second variable tranche of 4.55 million euro is disbursed for 2018.

**Results and Achievements - Monitoring Indicators of the Sector Reform Contract SRC (Budget Support) Results include:**

1. Youth employment rate was increased 4.85 percentage points compared to the target for 2017 (700,000 Euro). Achieved
2. Gender gap in employment narrowed by 0.7 percentage points compared to the baseline but it stands 0.3 higher than the target (350000 EUR). Partially achieved
3. The share of registered unemployed jobseekers benefiting from employment promotion programs reached 5.8% (700000 EUR). Achieved
4. The capacities of teachers/instructors of vocational education and training have been enhanced. (700,000 Euro) Achieved
5. The monitoring system (ROMALB) is in place and participation of Roma and Egyptian citizens in public vocational training centres and employment promotion programmes (700000 EUR). Achieved
6. Establishment of multifunctional VET centres (700000 EUR). Achieved
7. A tracer system for all VET graduates (schools and centres) is in place and the first report covering the year 2017 was delivered in the first half of 2018 (700000 EUR). Achieved

NESS 2014-2020 comprises of 52 Actions to be implemented in a 7-year period. Annual Progress in the Implementation of the National Employment and Skills Strategy (NESS) covering 2017 was submitted in the first half of 2018 and the results are as follow:

• 49 measures have been implemented from 52 planned (94% of the planned measures have been initiated and are in progress or complete);
• Measures that show no progress are those that have to do with expanding employment and VET services in rural areas.
• Progress is estimated to be at the level of 74%;
• During 2017, overall progress in implementing the strategy was projected at 9%.

Total public spending on vocational education and labour market policies, in 2017, amounted to 37.8 Mln Euro, 58% of this budget was allocated to vocational education, while 15.4 Mln Euro was spent on employment measures. Overall funding on employment and skills increased 24% if compared to 2016.

Currently, the mid-term review of the Strategy is on-going. The midterm review is analysing the results achieved, the management of resources and the quality of implementation. This analysis will point to changes in the overall economic and social context, will assess whether the aims are still relevant by comparing the state of affairs with the initial situation, and will lead to the identification of required remedial action where all measures will be revised and new measures in the Action Plan of the Strategy can be introduced. One of the pillars where the strategy has had problems in its implementation is priority C "Promoting Social Inclusion and Territorial Cohesion", mainly for measures related to the extension of employment and vocational training services in rural areas. This review began in July 2018 and the results will be released December 2018.

For 2018 is the same fund (490 million ALL) and 8 employment promotion programs are implemented, by supporting the most vulnerable groups in the labour market such as:

- For beneficiaries of economic aid or those who have come out of this scheme as a result of reform;
- On-the-job training;
- Employment of women single heads of households;
- Employment of people with disabilities;
- Employment of vulnerable groups;
- Employment of youth in possession of higher university degrees;
- Internships for recent university graduates;
- Employment promotion for orphans.

Employment offices make the announcement in the Public Announcement Bulletin each year for the fund made available and the benefit criteria of these programs. The publication of the program is also

done with all possible electronic and non-electronic means. The first phase of implementation of the programs has been completed and are included **4844** unemployed job seekers.
The State Labour Inspectorate and Social Services has the duty to ensure the implementation of the legal provisions on working conditions and the protection of employees in the exercise of their profession, on the duration of work, salaries, insurance, hygiene and welfare, employment of children, minors and women, as well as on other issues that are closely related to them. Its activity extends across the territory of the Republic of Albania with a structure composed of 155 employees, of which 37 are employees of the central administration and 115 employees are in the local administrations that are organized in 12 Regional Directorates. The SLISS's budget has increased in 2018 by 11% higher than 2017.
The State Labour Inspectorate and Social Services has made a valuable contribution to the fight against informal employment, by considering it as the most important issue in any form by which this phenomenon occurs, such as salaries, unpaid work, working without an employment contract, working without social and health insurance, overtime of normal working hours and working on holidays and official holidays.

**Latest policy developments and reforms**
The new Law "On Unemployed Jobseekers" (Law No. 145/2015), which has been in force since 2016, has led to a significant reduction in the number of registered unemployed jobseekers: from 93,889 in 2016 to 67,625 in September 2018. The law is part of the governmental reform on fighting informal employment, especially targeting persons, who are employed in the informal market, and are registered within employment services in the same time. The implementation of this law has enabled employees of employment offices to better identify active job seekers. The mechanisms that are used, are related to the identification of the individuals actively looking for a job, showing up every single month in the employment offices. This was also related to this was the cash assistance reform made by the Ministry of Health and Social Protection.

**Implementation of Economic Assistance Reform**
The Ministry of Finance and Economy drafted and approved the new employment promotion program DCM 162/2018 "On the payment participation in vocational training courses", which aims, within the orientation of the government for the activation of beneficiaries of economic assistance and persons coming out from this scheme, their involvement in vocational training programs, in order to get a job and to re-enter in the labour market. Giving 50% of the unemployment payment for every month on the course is an incentive to support these people for the period of exit from the economic aid scheme and obtaining a job in the labour market, with the ultimate goal of finding a sustainable workplace.

2. *Reform measures*

**Reform measure 19: Modernising public employment services, increasing employment of women, youth and vulnerable people**
The reform measure seeks to:
1. Develop policies and programs that promote quality employment, boosting job demand, boosting productivity and employability.
2. Development of the National Employment Model (New service model) in the 36 Employment Offices, through reorganization of the working environments, according to the new three-level employment service model; establishment of performance management system of services and modernization of IT infrastructure and systems in the National Employment Service; Human resource development.
3. Reduce unemployment and high passivity, especially in the group of young people and women.

*Activities planned*
2019

- New service model implemented in 36 employment offices accompanied by staff training. Increase the quality of services to unemployed jobseekers and employers through the improvement and standardization of employment services and programs
- Strengthen cooperation between labour market actors at all levels in order to identify and develop integrated case management
- Expanding service coverage in rural areas in collaboration with the local government.
- New employment promotion law approved and new and revised employment promotion programs aimed at supporting the most vulnerable groups and registered unemployed jobseekers benefiting from these programs.
- Improving the linkage of VET providers with the labour market and expanding VET access to those living in rural areas.

2020

- Structural and functional modernization of NES for the efficient implementation of state policies in the labour market area
- Developing employability skills through increasing the quality, distribution and diversification of vocational training programs
- The implementation of employment promotion programs aimed at supporting the most vulnerable groups and the number of registered unemployed jobseekers benefiting from employment promotion programs is targeted to reach 6%.
- Extending the coverage of employment services and VET in rural areas by extending these services to these areas in collaboration with the local government.

2021

- Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance. Performance management system is established and score card system target and objectives are set for each employment offices;
- Development and publication of information and quality analysis of the labour market and improvement of public relations;
- Establishment of call centre to assess consumer feedback.

*Estimated cost of activities and source of financing*

| | **State Budget (Million EUR)** | | |
|---|---|---|---|
| Performance Indicators | 2019 Forecast | 2020 Forecast | 2021 Forecast |
| Mediations carried out by Employment Offices | 2,308 | 2,380 | 2,400 |
| Implementation of employment promotion programs | 7,900 | 7,900 | 8,661 |
| Training in VTC | 2,278 | 2,347 | 2,370 |
| Benefits from unemployment | 4,740 | 5,530 | 5,925 |
| Total funds | **17,226** | **18,157** | **19,356** |

Total budgetary impact is:
EUR 21.3 million for 2019;
EUR 20.1 million for 2020;
EUR 19.89 million for 2021.

*Expected impact on employment and gender*
Reduce unemployment and high passivity, especially in the group of young people and women.

*Expected impact on competitiveness*

The reform measure aims to improve skills and qualifications of the unemployed; therefore increasing the competitiveness of the business.

*Key performance indicators*

- Increased training for unemployed jobseekers by 5% (55% in 2017)
- Increase employment of jobseekers through job mediation services by 10% (28% in 2017)
- Increase participation of unemployed job seekers in Employment promotion programs by 0.2% (5.8% in 2017)

*Potential risks*

1. Due to the fact that most of the measures are at regional level, lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector (6%). Mitigated by having monitoring, reporting and close cooperation between relevant stakeholders.
2. Potential risks to this reform include delays due to lack of funds, workload delays, which can be mitigated by careful planning at the central level 15%).
3. Lack of improvements of quality of services in regional and local level, due to insufficient training (5%). Close monitoring of training activities and increasing the number of available trainers.

### 4.3.8. Social inclusion, poverty reduction and equal opportunities

*1. Analysis of main obstacles*

In view of socio-demographic change, social dimension of National Strategy for Development and Integration encompasses objectives for social cohesion, stronger social protection system, gender equality and social inclusion".

Poverty is multidimensional requiring targeted public investment for vulnerable groups through reduction of poverty, social protection and inclusion. Fighting inequalities, poverty and social exclusion remains a priority of the Albanian government within the framework objectives of SDGs, Social Inclusion Policy Document and Social Protection Strategy. The estimation of the average monthly consumption expenditure for households in 2017 is 0.4% higher than in 2016. The growth in consumer prices in 2017 compared to 2016 is 2.0%.

The aim is to implement the social care reform program in its three main pillars: Economic Assistance, Disability and Social Services. Implementation of the new scheme of social reintegration assessment and programs will reduce the number of families and individuals benefiting from the economic aid scheme from 70 thousand to 67 thousand families in 2021 aiming to create a system of integration services that combine payments with social care services. Recent change in legislation for social services is a concrete step toward decentralization of social services. Coherent assessment of disability and an integrated quality assurance system.

Major development in Economic Aid Delivery has been the shift from partial payment to full payment, yielding positive results and increase of amount of economic aid for families in need. Furthermore, school attendance and vaccination are conditions for cash payments.

The Digital system for economic aid has produced results tracing discrepancies, improving accuracy, and overall administration of the scheme. This has contributed to the increase of the payment, which varies from EUR 30 to 65 monthly. Moreover, there are offered additional payments for families of children in Economic Aid. A new component has been in the program for reintegration with "Jobs to replace Economic Assistance" which has resulted in employment of 144 individuals

Law on Social Care Services" (2016) frames an integrated system of services offered by public and non-public service providers to individuals and families in need. Local government units (LGUs) become main actors in social care services with financing mechanisms involving a combination of local and central budget resources –a major difference from the previous system.

Needs Assessment and Referral Units (NARUs), a separate unit in LGUs provide needs assessment and case referral. In the same line, sub-legal acts have been approved for Law Nr.18/2017 "On Child

Rights and Protection”. Child Protection has packages of secondary legislation developed for Child Rights and Protection Law.
Monitoring social inclusion and disaggregation of data is relevant to the poor and disadvantaged population. Rom-Alb system has continued to provide data for the Roma and Egyptian communities’ situation with administrative data from all institutions and country reports.
The Albanian government is working to improve legislation focusing on gender equality at all levels, as well as strengthening the implementing capacities. Gender equality and economic empowerment is considered in National Gender Equality Strategy and Action Plan 2016-2020 and Plan for Women Entrepreneurship. Still, the gender gap in employment is at 12% and the majority of women and girls are employed in the low-income sector or informality and 54% of women are employed in the agricultural sector. In this area, support with childcare facilities as a responsibility of the local government is an important prerequisite for equal opportunities in the labour market

2. *Reform measures*

**Reform measure 20: Strengthening social protection, and social inclusion measures**

Priority reform of the effectiveness and transparency of the Social protection cash benefits, better allocation of poor households; Modernization of the Economic Aid scheme through the implementation of a national electronic registry and unique scoring formula;
This goes alongside the increasing capacities of local, regional and central structures, in areas including management, monitoring and evaluation of the scheme; Improving auditing of the scheme, in order to reduce cases of fraud transform the scheme into an active scheme through social re-integration scheme will provide for the beneficiaries’ service packages and employment opportunities. Roma and Egyptian communities do not fully benefit from social services due to the barriers they face in fulfilling the administrative requirements and the relevant documentation.
The reform is envisaged to combine cash payments with integrated social care services. The LGUs will assess the needs of vulnerable families and children and will develop a social care plan outlining the services to be established. The result is better targeting of poor families and higher cash allowances for the poor families. The expansion of Management Information System in all 61 municipalities will provide data in country level. Designing a social protection legal framework is supported from the World Bank. MHSP has also approved legislation on a Social Fund for the municipalities and a new Law for Social enterprises, which has been accompanied with sub-legal acts.

*Activities planned*

2019

- Draft legal framework on social service support.
- Continue screening for eligible Economic Aid beneficiaries through automated MIS.
- Assess disability in line with the social model as precondition for social reintegration.
- Improve reporting and assessment to target poverty reduction, social inclusion and equal opportunities for vulnerable groups through monitoring of action plans for social inclusion and gender equality.

2020

- Increase the number of beneficiaries of Economic Aid over the total number of applicants by over 80%;
- Support persons from disadvantaged backgrounds through employment in social enterprises;
- Increase number of beneficiaries from Economic Assistance and Disability that are employed;
- Increase efficiency of the Economic Aid scheme administration, and disability cash payments and social services.

2021

- Increase efficiency of the financial assistance scheme, shifting from a passive to active

scheme through reintegration programs and altering them with employment schemes and employ 600 people previously treated with Economic Assistance (NE) and disability allowance;
- Application of social evaluation model with efficiency and transparency;
- Increase number of persons with disabilities who are commissioned through the information management system;
- Increase by 12% of the number of beneficiaries of women head of households receiving Economic Assistance over the total number of female head of household applicants;
- Improve the system for monitoring and measuring social inclusion across the policy domains of poverty reduction and social protection, employment and skills, education and training, health, basic needs, and participation and human rights;
- Increase number of reintegrated women and girls in need after treatment in social care.

*Estimated cost of activities and source of financing*

| (in EUR) | **2019** | **2020** | **2021** |
|---|---|---|---|
| **Social Protection** | 182 million | 203 million | 193 million |

Budget for Social Inclusion is distributed in several sectorial and Cross-Sectorial Strategies and policy documents. Monitoring and evaluation framework for social inclusion is available in the Policy Document for Social Inclusion; National Surveys.
Regarding budget implications, there is a need for consolidation of financial mechanisms at the local level and the functioning of the Social Fund at local level with funds allocated by state funding; LGUs, and funds allocated by LGUs as result of incomes from their own assets and activities, fees from provided social services. This reform will rely on allocation of resources, fundraising and establishment of partnerships.
The cost for the implementation of the project "Modernisation of the Social Assistance" is 244.50 million USD (IFI loan).

*Expected impact on employment and gender*
Advanced social care reform will improve social cohesion; empower representatives of vulnerable groups and community-based organizations to increase their lobbying, advocacy and monitoring role in this process and contribute to bring less discrimination through institutional support and mechanisms. Women will be targeted through initiatives of social entrepreneurship. Local government will acquire ownership of the reform through local interventions and provision of services. The policies and interventions will adjust to the needs and characteristics of vulnerable groups.

*Key performance indicators*
- Percentage of households in the poorest 10% that are covered by the Economic Aid program beneficiaries of social safety net programs.

*Potential risks*
Social protection and inclusion depend on secondary legislation and normative guidelines to give full effect to its provisions. National authorities must have the necessary capacities and support to ensure the development and adoption of the legal basis for implementation of the social care reform. There is inadequate financial capacity to support this reform and to promote social welfare and inclusion and access to services.
Evidence-based policy depends on data availability and reporting at national and local level and for specific populations. Weak governance systems at the local level to respond to new and broader responsibilities as the result of decentralization and social care reforms.

Adequate mobilization of resources for implementation of social legislation and overall social inclusion.
Mitigation: Better targeting of women, youth, R/E and other vulnerable groups.

## 5. THE COST OF FINANCING OF STRUCTURAL REFORMS

Expected expenditures in the budget of the Republic of Albania include funds for the key structural reforms for the upcoming medium-term period. Budgetary expenditures are spread across the structural reforms included in the Economic Reform Programme 2019-2021. Details of the budgetary implications of the reforms are found in table 10a and table 10b of Annex 1.

In this document are included the budgetary implications that were presented by the reporting line institutions as part of the ERP preparation process. The capacity building support offered through the TAIEX instrument of the European Commission, has considerably improved the quality of reporting in this regard; nevertheless, it is an ongoing learning process that is being further consolidated with each iteration of the ERP exercise.

## 6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

Continuing the already established tradition of preparation and drafting of the Economic Reform Programme for the fourth year in a row by the Republic of Albania, the ERP 2019-2021, for this cycle as well, saw the involvement of different institutions and stakeholders throughout its different stages. The main actors and contributors have been the line ministries contributing in the ERP document, such as Ministry of Finance and Economy; Ministry of Infrastructure and Energy; Ministry of Agriculture and Rural Development; Ministry of Health and Social Protection, the Bank of Albania, and the Ministry of Tourism and Environment.

The process for the preparation of the ERP 2019-2021 is coordinated at the national level by the Ministry of Finance and Economy, which has been working closely with the relevant institutions to produce this document. The ERP highlights some of the priority structural reforms and the macroeconomic and fiscal framework of the country for the period 2019-2021.

The ERP 2019-2021 was officially kick-started on 13 June 2018 in Tirana, and was organised by the Ministry of Finance and Economy with the support of the OECD ERP team, and the European Commission. The event enjoyed a wide participation from civil society, international organisations, public institutions, donor organisations, etc. The revised EC Guidance Note for the ERP 2019-2021 were presented by the EC; moreover, the parties agreed upon the new working plan for this cycle. The OECD presented the assistance it would offer with regard to the ERP process, in the form of workshops during the initial drafting stage of the document and subsequent support in the form of comments at the various stages of the process.

In accordance with the ERP working plan, a workshop was organised on 12 September 2018 by the OECD. The latter presented its comments, recommendations and general impressions on the initial draft of the ERP document that had been submitted in late August. The OECD's comments and feedback have been taken into consideration by the respective line ministries during preparation of the reform contributions.

On 22-26 October 2018, a TAIEX expert mission was organised for providing assistance to the line ministries with regard to the new costing methodology introduced by the EC in the updated Guidance Note for this cycle.

The ERP draft document was shared for public consultation with the development and integration partners, and the Civil Society. The feedback received was shared with the line ministries contributing in the ERP, and have been included as annex to this document (Annex II). Line ministries and the Bank of Albania have taken into consideration the feedback received and reflected it in their part of the document, as appropriate.

**ANNEX I**

Table 1a: Macroeconomic prospects

| Percentages unless otherwise indicated | ESA Code | Year 2017 | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|---|
| | | Level (bn EUR) | Rate of change | | | | |
| 1. Real GDP at market prices | B1*g | 11.4 | 3.8 | 4.2 | 4.3 | 4.4 | 4.5 |
| 2. Current GDP at market prices | B1*g | 11.6 | 5.3 | 6.1 | 6.4 | 6.6 | 7.0 |
| **Components of real GDP** | | | | | | | |
| 3. Private consumption expenditure | P3 | 9.2 | 2.7 | 2.9 | 2.9 | 2.9 | 3.2 |
| 4. Government consumption expenditure | P3 | 1.3 | 2.7 | 3.2 | 2.9 | 3.4 | 2.7 |
| 5. Gross fixed capital formation | P51 | 2.9 | 6.5 | 4.4 | 6.8 | 5.4 | 6.3 |
| 6. Changes in inventories and net acquisition of valuables (% of GDP) | P52+P53 | 0.1 | -349.9 | 0.0 | : | : | : |
| 7. Exports of goods and services | P6 | 3.5 | 8.9 | 5.0 | 7.3 | 7.5 | 6.4 |
| 8. Imports of goods and services | P7 | 5.4 | 8.2 | 2.6 | 5.1 | 4.5 | 4.4 |
| **Contribution to real GDP growth** | | | | | | | |
| 9. Final domestic demand | | 13.3 | 4.1 | 3.8 | 4.3 | 4.0 | 4.4 |
| 10. Change in inventories and net acquisition of valuables | P52+P53 | 0.1 | 0.9 | : | : | : | : |
| 11. External balance of goods/services | B11 | -2.0 | -1.2 | 0.3 | 0.0 | 0.4 | 0.1 |

Table 1b: Price developments

| Percentage changes, annual averages | | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|
| 1. GDP deflator | %, yoy | 1.4 | 1.9 | 2.0 | 2.2 | 2.5 |
| 2. Private consumption deflator | %, yoy | 1.8 | 2.5 | 2.5 | 3.0 | 3.4 |
| 3. HICP | %, yoy | : | : | : | : | : |
| 4. National CPI change | %, yoy | 2.0 | 2.1 | 2.7 | 3.0 | 3.0 |
| 5. Public consumption deflator | %, yoy | 4.5 | 1.4 | 1.5 | 1.5 | 1.5 |
| 6. Investment deflator | %, yoy | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| 7. Export price deflator (goods & services) | %, yoy | 5.8 | -0.6 | 1.5 | 1.3 | 1.3 |
| 8. Import price deflator (goods & services) | %, yoy | -1.1 | 0.3 | 1.5 | 1.8 | 1.8 |

Table 1c: Labour markets developments

| | ESA Code | Year 2017 | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|---|
| | | Level | Level/Rate of change | | | | |
| 1. Population (thousands) | | | 2,873.5 | 2,873.7 | 2,874.0 | 2,874.3 | 2,874.6 |
| 2. Population (growth rate in %) | | | -0.1 | 0.0 | 0.0 | 0.0 | 0.0 |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| 3. Working-age population (persons)[28] | | | 2,005,354 | 1,982,602 | 1,983,087 | 1,983,286 | 1,983,484 |
| 4. Participation rate | | | 66.8 | 67.9 | 69.0 | 70.0 | 71.1 |
| 5. Employment, persons[29] | | | 1,150,392 | 1,174,908 | 1,208,138 | 1,239,653 | 1,271,952 |
| 6. Employment, hours worked[30] | | | : | : | : | : | : |
| 7. Employment (growth rate in %) | | | 2.7 | 2.1 | 2.8 | 2.6 | 2.6 |
| 8. Public sector employment (persons) | | | 164,338.8 | 164,000.0 | 164,000.0 | 164,000.0 | 164,000.0 |
| 9. Public sector employment (growth in %) | | | -0.2 | -0.2 | 0.0 | 0.0 | 0.0 |
| 10. Unemployment rate[31] | | | 14.1 | 12.8 | 11.7 | 10.7 | 9.8 |
| 11. Labour productivity, persons[32] | | 1.3 | 1.1 | 2.0 | 1.4 | 1.7 | 1.8 |
| 12. Labour productivity, hours worked[33] | | | : | : | : | : | : |
| 13. Compensation of employees | D1 | | : | : | : | : | : |

Table 1d: Sectorial balances

| Percentages of GDP | ESA code | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|
| 1. Net lending/borrowing vis-à-vis the rest of the world | B.9 | -6.9 | -6.4 | -5.8 | -5.5 | -5.3 |
| *of which:* | | | | | | |
| - *Balance of goods and services* | | -16.8 | -15.1 | -14.0 | -13.4 | -12.6 |
| - *Balance of primary incomes and transfers* | | 9.3 | 7.6 | 7.3 | 7.1 | 6.5 |
| - *Capital account* | | 0.6 | 1.1 | 0.9 | 0.8 | 0.8 |
| 2. Net lending/borrowing of the private sector | B.9/ EDP B.9 | : | : | : | : | : |
| 3. Net lending/borrowing of general government | | -2.0 | -2.0 | -1.9 | -1.6 | -1.2 |
| 4. Statistical discrepancy | | | | | | |

Table 1e: GDP, investment and gross value added

| | ESA Code | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|
| **GDP and investment** | | | | | | |
| GDP *level* at *current* market prices (in domestic currency) | B1g | 1552.9 | 1647.6 | 1752.7 | 1869.2 | 2000.3 |

28 Age group of 15-64 years
29 Occupied population, domestic concept national accounts definition
30 National accounts definition
31 Harmonized definition, Eurostat; levels
32 Real GDP per person employed
33 Real GDP per hour worked

| | | | | | | |
|---|---|---|---|---|---|---|
| Investment ratio (% of GDP) | | 24.9 | 24.5 | 24.7 | 24.4 | 24.3 |
| **Growth of Gross Value Added, percentage changes at constant prices** | | | | | | |
| 1. Agriculture | | 0.8 | 2.1 | 3.5 | 3.4 | 3.3 |
| 2. Industry (excluding construction) | | 2.6 | 8.0 | 6.5 | 6.4 | 6.3 |
| 3. Construction | | 9.5 | 5.1 | 4.7 | 4.6 | 5.2 |
| 4. Services | | 4.5 | 3.9 | 3.9 | 4.1 | 4.2 |

Table 1f: External sector developments

| Euro mill. unless otherwise indicated | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|
| 1. Current account balance (% of GDP) | -7.5 | -6.7 | -6.3 | -6.1 | -6.0 |
| 2. Export of goods | 0.8 | 1.0 | 1.1 | 1.2 | 1.3 |
| 3. Import of goods | 3.6 | 3.9 | 4.1 | 4.4 | 4.7 |
| 4. Trade balance | -2.8 | -2.9 | -3.1 | -3.2 | -3.4 |
| 5. Export of services | 2.9 | 3.0 | 3.3 | 3.6 | 3.9 |
| 6. Import of services | 1.8 | 1.9 | 2.1 | 2.2 | 2.3 |
| 7. Service balance | 1.1 | 1.1 | 1.2 | 1.4 | 1.5 |
| 8. Net interest payments from abroad | : | : | : | : | : |
| 9. Other net factor income from abroad | 0.0 | 0.0 | 0.1 | 0.0 | 0.0 |
| 10. Current transfers | 0.8 | 1.0 | 0.9 | 0.9 | 0.9 |
| *11. Of which* from EU | : | : | : | : | : |
| 12. Current account balance | -0.9 | -0.9 | -0.9 | -0.9 | -0.9 |
| 13. Capital and financial account | 1.2 | 1.2 | 1.2 | 1.4 | 1.4 |
| 14. Foreign direct investment | 1.0 | 1.1 | 1.2 | 1.3 | 1.3 |
| 15. Foreign reserves | 3.0 | 3.3 | 3.6 | 4.0 | 4.4 |
| 16. Foreign debt | 6.2 | : | : | : | : |
| *17. Of which*: public | 3.7 | 4.2 | 4.1 | 4.2 | 4.1 |
| *18. O/w:* foreign currency denominated | : | : | : | : | : |
| *19.O/w:* repayments due | : | : | : | : | : |
| 20. Exchange rate vis-à-vis EUR (end-year) | 133.2 | 123.5 | 123.5 | 123.5 | 123.5 |
| *p.m. Exchange rate vis-à-vis EUR (end-year)* | *-1.5* | *-7.4* | *0.0* | *0.0* | *0.0* |
| 21. Exchange rate vis-à-vis EUR (annual average) | 134.2 | 127.6 | 127.6 | 127.6 | 127.6 |
| *p.m. Exchange rate vis-à-vis EUR (annual average)* | *-2.3* | *-4.9* | *0.0* | *0.0* | *0.0* |
| 22. Net foreign saving (lines 21-25: percentages of GDP) | 7.5 | 6.7 | 6.3 | 6.1 | 6.0 |
| 23. Domestic private saving | 13.9 | 13.2 | 13.7 | 14.7 | 14.4 |
| 24. Domestic private investment | 19.4 | 18.9 | 19.0 | 18.9 | 18.9 |
| 25. Domestic public saving | 3.5 | 4.7 | 4.7 | 3.6 | 3.9 |
| 26. Domestic public investment | 5.5 | 5.7 | 5.7 | 5.5 | 5.4 |

Table 1g: Sustainability indicators

| | Dimension | Year 2014 | Year 2015 | Year 2016 | Year 2017 | Year 2018 |
|---|---|---|---|---|---|---|
| 1. Current Account Balance | % of GDP | -10.8 | -8.6 | -7.6 | -7.5 | -6.7 |
| 2. Net International Investment Position | % of GDP | -42.9 | -43.1 | -44.9 | -46.5 | : |

| | | | | | | |
|---|---|---|---|---|---|---|
| 3. Export market shares | %, y-o-y | -0.7 | -6.7 | 12.5 | 8.8 | : |
| 4. Real Effective Exchange Rate[34] | %, y-o-y | -2.0 | 0.5 | -3.7 | -4.4 | -7.5 |
| 5. Nominal Unit Labour Costs | %, y-o-y | : | : | : | : | : |
| 6. Private sector credit flow | % of GDP | 16.9 | 14.9 | 13.8 | 14.3 | 11.4 |
| 7. Private sector debt | % of GDP | 37.1 | 35.1 | 34.3 | 32.6 | 30.6 |
| 8. General Government Debt | % of GDP | 72.0 | 72.7 | 72.3 | 70.1 | 69.1 |

Table 2a: General government budgetary prospects

| | ESA code | Year 2017 | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|---|
| | | Level | % of GDP | | | | |
| **Net lending (B9) by sub-sectors** | | | | | | | |
| 1. General government | S13 | -31.0 | -2.0 | -2.0 | -1.9 | -1.6 | -1.2 |
| 2. Central government | S1311 | 69.6 | 4.5 | 4.5 | 4.1 | 4.4 | 4.6 |
| 3. State government | S1312 | : | : | : | : | : | : |
| 4. Local government | S1313 | -28.0 | -1.8 | -1.8 | -1.6 | -1.6 | -1.6 |
| 5. Social security funds | S1314 | -72.6 | -4.7 | -4.7 | -4.4 | -4.3 | -4.2 |
| **General government (S13)** | | | | | | | |
| 6. Total revenue | TR | 430.4 | 27.7 | 28.0 | 27.8 | 27.8 | 27.8 |
| 7. Total expenditure[35] | TE | 461.4 | 29.7 | 30.0 | 29.6 | 29.3 | 28.9 |
| 8. Net borrowing/lending | EDP.B9 | -31.0 | -2.0 | -2.0 | -1.9 | -1.6 | -1.2 |
| 9. Interest expenditure | EDP.D41 | 31.9 | 2.1 | 2.5 | 2.4 | 2.5 | 2.7 |
| 10. Primary balance[36] | | 0.9 | 0.1 | 0.5 | 0.5 | 0.9 | 1.5 |
| 11. One-off and other temporary measures[37] | | : | : | : | : | : | : |
| **Components of revenues** | | | | | | | |
| 12. Total taxes (12 = 12a+12b+12c) | | 259.8 | 16.7 | 16.9 | 16.6 | 16.7 | 16.8 |
| 12a. Taxes on production and imports | D2 | 191.1 | 12.3 | 12.3 | 11.9 | 12.0 | 12.1 |
| 12b. Current taxes on income and wealth | D5 | 36.9 | 2.4 | 2.6 | 2.8 | 2.8 | 2.8 |
| 12c. Capital taxes | D91 | 31.6 | 2.0 | 2.1 | 1.9 | 1.9 | 1.9 |
| 13. Social contributions | D61 | 85.6 | 5.5 | 5.5 | 5.6 | 5.6 | 5.6 |
| 14. Property income | D4 | 0.2 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| 15. Other (15 = 16-(12+13+14))[38] | | 84.9 | 5.5 | 5.6 | 5.5 | 5.4 | 5.3 |
| 16 = 6. Total revenue | TR | 430.4 | 27.7 | 28.0 | 27.8 | 27.8 | 27.8 |

[34] Please explain the methodology used (deflators, trade weighing, etc.)
[35] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9
[36] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)
[37] A plus sign means deficit-reducing one-off measures
[38] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| p.m.: Tax burden (D2+D5+D61+D91-D995)[39] | | 345.4 | 22.2 | 22.4 | 22.2 | 22.3 | 22.4 |
| **Selected components of expenditures** | | | | | | | |
| 17. Collective consumption | P32 | 145.3 | 9.4 | 9.3 | 9.1 | 9.0 | 8.7 |
| 18. Total social transfers | D62 + D63 | 185.5 | 11.9 | 11.8 | 11.6 | 11.5 | 11.3 |
| 18a. Social transfers in kind | P31 = D63 | : | : | : | : | : | : |
| 18b. Social transfers other than in kind | D62 | 185.5 | 11.9 | 11.8 | 11.6 | 11.5 | 11.3 |
| 19 = 9. Interest expenditure (incl. FISIM) | EDP.D41 + FISIM | 31.9 | 2.1 | 2.5 | 2.4 | 2.5 | 2.7 |
| 20. Subsidies | D3 | 2.3 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| 21. Gross fixed capital formation | P51 | 84.8 | 5.5 | 6.2 | 6.2 | 6.0 | 5.9 |
| 22. Other (21 = 22-(16+17+18+19+20)[40] | | 11.6 | 0.7 | 0.2 | 0.2 | 0.3 | 0.3 |
| 23. Total expenditures | TE[41] | 461.4 | 29.7 | 30.0 | 29.6 | 29.3 | 28.9 |
| p.m. compensation of employees | D1 | 91.8 | 5.9 | 5.6 | 5.4 | 5.3 | 5.2 |

Table 2b: General government budgetary prospects

| | ESA code | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|
| | | bn NCU | | | | |
| 1. General government | S13 | -31.0 | -32.4 | -32.9 | -29.8 | -23.2 |
| 2. Central government | S1311 | 69.6 | 73.4 | 72.6 | 81.7 | 92.3 |
| 3. State government | S1312 | : | : | : | : | : |
| 4. Local government | S1313 | -28.0 | -29.0 | -28.6 | -30.7 | -32.3 |
| 5. Social security funds | S1314 | -72.6 | -76.7 | -76.9 | -80.8 | -83.2 |
| 6. Total revenue | TR | 430.4 | 461.8 | 486.7 | 518.7 | 555.1 |
| 7. Total expenditure[42] | TE | 461.4 | 494.2 | 519.6 | 548.6 | 578.3 |
| 8. Net borrowing/lending | EDP.B9 | -31.0 | -32.4 | -32.9 | -29.8 | -23.2 |
| 9. Interest expenditure | EDP.D41 incl. FISIM | 31.9 | 41.0 | 41.7 | 47.5 | 53.5 |
| 10. Primary balance[43] | | 0.9 | 8.6 | 8.8 | 17.7 | 30.3 |
| 11. One-off and other temporary measures[44] | | : | : | : | : | : |
| 12. Total taxes (12 = 12a+12b+12c) | | 259.8 | 277.9 | 291.3 | 312.7 | 336.8 |
| 12a. Taxes on production and imports | D2 | 191.1 | 201.9 | 209.0 | 224.5 | 242.1 |
| 12b. Current taxes on income and wealth | D5 | 37.0 | 42.1 | 48.8 | 52.2 | 56.0 |
| 12c. Capital taxes | D91 | 31.6 | 33.8 | 33.5 | 36.0 | 38.8 |
| 13. Social contributions | D61 | 85.6 | 91.1 | 98.1 | 104.4 | 111.7 |

[39] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate
[40] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8
[41] Adjusted for the next flow of swap-related flows, so the TR-TE=EDP.B9
[42] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9
[43] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)
[44] A plus sign means deficit-reducing one-off measures

| | | | | | | |
|---|---|---|---|---|---|---|
| 14. Property income | D4 | 0.2 | 0.8 | 0.8 | 0.5 | 0.5 |
| 15. Other (15 = 16-(12+13+14))[45] | | 84.9 | 92.0 | 96.5 | 101.2 | 106.1 |
| 16 = 6. Total revenue | TR | 430.4 | 461.8 | 486.7 | 518.7 | 555.1 |
| p.m.: Tax burden (D2+D5+D61+D91-D995)[46] | | 345.4 | 369.0 | 389.4 | 417.0 | 448.5 |
| 17. Collective consumption | P32 | 145.3 | 152.9 | 159.7 | 167.6 | 174.7 |
| 18. Total social transfers | D62 + D63 | 185.5 | 193.9 | 204.0 | 215.2 | 225.5 |
| 18a. Social transfers in kind | P31 = D63 | : | : | : | : | : |
| 18b. Social transfers other than in kind | D62 | 185.5 | 193.9 | 204.0 | 215.2 | 225.5 |
| 19 = 9. Interest expenditure | EDP.D41 | 31.9 | 41.0 | 41.7 | 47.5 | 53.5 |
| 20. Subsidies | D3 | 2.3 | 1.9 | 1.5 | 1.5 | 1.5 |
| 21. Gross fixed capital formation | P51 | 84.8 | 101.8 | 108.6 | 112.0 | 117.7 |
| 22. Other (21 = 22-(16+17+18+19+20)[47] | | 11.6 | 2.6 | 4.1 | 4.8 | 5.4 |
| 23. Total expenditures | TE[48] | 461.4 | 494.2 | 519.6 | 548.6 | 578.3 |
| p.m. compensation of employees | D1 | 91.8 | 91.9 | 95.0 | 99.5 | 103.1 |

Table 3: General government expenditure by function

| % of GDP | COFOG Code | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|
| 1. General public services | 1 | 2.4 | 2.2 | 2.3 | 2.2 | 2.0 |
| 2. Defense | 2 | 0.7 | 0.7 | 0.8 | 1.1 | 1.5 |
| 3. Public order and safety | 3 | 1.7 | 1.8 | 1.7 | 1.7 | 1.7 |
| 4. Economic affairs | 4 | 2.3 | 2.8 | 2.6 | 2.5 | 2.4 |
| 5. Environmental protection | 5 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| 6. Housing and community amenities | 6 | 1.9 | 1.9 | 1.8 | 1.7 | 1.7 |
| 7. Health | 7 | 2.9 | 3.0 | 2.9 | 2.9 | 2.7 |
| 8. Recreation, culture and religion | 8 | 0.2 | 0.2 | 0.2 | 0.2 | 0.2 |
| 9. Education | 9 | 2.4 | 2.5 | 2.4 | 2.3 | 2.2 |
| 10. Social protection | 10 | 9.1 | 9.0 | 8.9 | 8.8 | 8.6 |
| 11. Total expenditure (item 7 = 23 in Table 2) | TE | 29.7 | 30.0 | 29.6 | 29.3 | 28.9 |

*This item includes: (i) debt service payments, (ii) contingency fir wages & pensions policies, (iii) reserve fund, and (iv) Local government expenditures

Table 4: General government debt developments

| % of GDP | ESA code | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|
| 1. Gross debt[49] | | 70.1 | 69.1 | 65.5 | 63.6 | 59.9 |
| 2. Change in gross debt ratio | | | -0.9 | -3.6 | -1.9 | -3.7 |
| **Contributions to change in gross debt** | | | | | | |

[45] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)
[46] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate
[47] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8
[48] Adjusted for the next flow of swap-related flows, so the TR-TE=EDP.B9
[49] As defined in Regulation 3605/93 (not an ESA concept)

| | | | | | | |
|---|---|---|---|---|---|---|
| 3. Primary balance[50] | | -0.1 | -0.5 | -0.5 | -0.9 | -1.5 |
| 4. Interest expenditure[51] | EDP D.41 | 2.1 | 2.5 | 2.4 | 2.5 | 2.7 |
| 5. Stock-flow adjustment | | -2.0 | -2.9 | -5.5 | -3.5 | -4.9 |
| *of which:* | | | | | | |
| - Differences between cash and accruals[52] | | : | : | : | : | : |
| - Net accumulation of financial assets[53] | | : | : | : | : | : |
| *of which:* | | | | | | |
| - Privatization proceeds | | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| - Valuation effects and other[54] | | : | : | : | : | : |
| p.m. implicit interest rate on debt[55] | | 3.0 | 3.8 | 3.7 | 4.1 | 4.5 |
| **Other relevant variables** | | | | | | |
| 6. Liquid financial assets[56] | | | | | | |
| 7. Net financial debt (7 = 1 - 6) | | | | | | |

Table 5: Cyclical developments

| % of GDP | ESA Code | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|
| 1. Real GDP growth (%, y-o-y) | B1g | 3.8 | 4.2 | 4.3 | 4.4 | 4.5 |
| 2. Net lending of general government | EDP.B.9 | -2.0 | -2.0 | -1.9 | -1.6 | -1.2 |
| 3. Interest expenditure | EDP.D.41 | 2.1 | 2.5 | 2.4 | 2.5 | 2.7 |
| 4. One-off and other temporary measures[57] | | : | : | : | : | : |
| 5. Potential GDP growth (%)[58] | | 3.3 | 3.5 | 3.6 | 4.1 | 4.5 |
| Contributions: | | | | | | |
| - labour | | : | : | : | : | : |
| - capital | | : | : | : | : | : |
| - total factor productivity | | : | : | : | : | : |
| 6. Output gap | | -1.2 | -0.6 | 0.0 | 0.3 | 0.3 |
| 7. Cyclical budgetary component | | -0.4 | -0.2 | 0.0 | 0.1 | 0.1 |
| 8. Cyclically-adjusted balance (2-7) | | -1.6 | -1.8 | -1.9 | -1.7 | -1.2 |
| 9. Cyclically-adjusted primary balance (8+3) | | 0.4 | 0.7 | 0.5 | 0.9 | 1.4 |
| 10. Structural balance (8-4) | | : | : | : | : | : |

Table 6: Divergence from previous programme

| | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|
| **1. GDP growth (%, y-o-y)** | | | | | |
| Previous programme | 3.9 | 4.2 | 4.3 | 4.4 | : |
| Latest update | 3.8 | 4.2 | 4.3 | 4.4 | 4.5 |

50 Cf. item 10 in Table 2
51 Cf. item 9 in Table 2
52 The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant
53 Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant
54 Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant
55 Proxied by interest expenditure divided by debt level of the previous year
56 AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares)
57 A plus sign means deficit-reducing one-off measures
58 Until an agreement on the Production Function Method is reached, countries can use their own figures (SP)

| | | | | | |
|---|---|---|---|---|---|
| Difference (percentage points) | -0.1 | 0.0 | 0.0 | 0.0 | : |
| **2. General government net lending (% of GDP)** | | | | | |
| Previous programme | -2.0 | -2.0 | -1.7 | -1.2 | : |
| Latest update | -2.0 | -2.0 | -1.9 | -1.6 | -1.2 |
| Difference | 0.0 | 0.0 | -0.2 | -0.4 | : |
| **3. General government gross debt (% of GDP)** | | | | | |
| Previous programme | 71.5 | 68.7 | 66.4 | 63.5 | : |
| Latest update | 70.1 | 69.1 | 65.5 | 63.6 | 59.9 |
| Difference | -1.4 | 0.4 | -0.9 | 0.1 | : |

Table 7a: General government guarantees

| % of GDP | Year 2018 | Year 2019 |
|---|---|---|
| Public guarantees | 3.2 | 3.2 |
| *Of which: linked to the financial* | : | : |

Table 8: Basic assumptions on the external economic environment underlying the programme framework

| | Dimension | Year 2017 | Year 2018 | Year 2019 | Year 2020 | Year 2021 |
|---|---|---|---|---|---|---|
| Short-term interest rate[59] | Annual average | -0.3 | -0.3 | -0.2 | 0.2 | 0.2 |
| Long-term interest rate | Annual average | 0.3 | 0.5 | 0.7 | 0.9 | 0.9 |
| USD/EUR exchange rate | Annual average | 1.1 | 1.2 | 1.2 | 1.2 | 1.2 |
| Nominal effective exchange rate | Annual average | 101.4 | 103.8 | 108.8 | 108.6 | 108.5 |
| Exchange rate vis-à-vis the EUR | Annual average | 134.2 | 127.6 | 127.6 | 127.6 | 127.6 |
| Global GDP growth, excluding EU | Annual average | 3.9 | 4.0 | 3.8 | 3.8 | 3.8 |
| EU GDP growth | Annual average | 2.4 | 2.1 | 1.9 | 1.8 | 1.8 |
| Growth of relevant foreign markets | Annual average | : | : | : | : | : |
| World import volumes, excluding EU | Annual average | 1.5 | 2.0 | 2.0 | 2.0 | 2.0 |
| Oil prices (Brent, USD/barrel) | Annual average | 1.6 | 1.1 | 1.2 | 1.3 | 1.3 |

Table 9: Selected employment and social indicators[60]

| | Data source[61] | Year | Year | Year | Year | Year | Year |
|---|---|---|---|---|---|---|---|
| | | 2012[62] | 2015 | 2016 | 2017 | 2018[63] | 2019 |
| 1. Labour market participation rate (%) total | e | | 71.3 | 73.3 | 73.9 | 68.2 | 69.2 |

59 If necessary, purely technical assumption

60 Given the disparate availability of data and variety of definitions used for indicators, countries should use EUROSTAT data when available. In case of data from national sources, a footnote should be added for each indicator indicating how it is defined. In case no data are available for an indicator, please see whether any data would be available for a similar indicator and explain so. It is recommended that year X=2017. In case that no data are available for the year 2017, the data available for previous years (2016, 2015) shall be introduced in the respective columns. For all indicators the values shall be inserted in the table, not the year-on-year change of the values as in some other tables.

61 For the indicators marked "e", Eurostat indicators should be available for all enlargement countries.

62 LSMS 2012

63 For period 2015 – 2017 the data are based on INSTAT calculations, while for 2018 – 2019 the data on:" Labour market participation rate (%) total", "Unemployment rate (%) total" (age group 15 – 64); are taken from "Albania's Economic Reform Programme 2018-2020" Annex 1, Table 1c, pg 108. Please refer link:
http://www.financa.gov.al/wp-ontent/uploads/2018/06/Economic_Reform_Programme_2018-2020-1.pdf
Data on "Social Protection expenditure in % of GDP" and "Health expenditure in % of GDP" for period 2018 – 2019 are taken by **Table 3: General government expenditure by function** on the link above.

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| (20-64 years old) | | | | | | | |
| -male | e | | 81.8 | 82.5 | 84.3 | | |
| -female | e | | 61.1 | 66.4 | 61.9 | | |
| 2. Employment rate (%) total (20-64 years old) | e | | 59.3 | 62.1 | 63.9 | | |
| -male | e | | 68.1 | 69.4 | 72.1 | | |
| -female | e | | 50.7 | 55.0 | 55.6 | | |
| 3. Unemployment rate (%) total | e | | 16.8 | 15.2 | 13.6 | 12.9 | 12.0 |
| -male | e | | 16.7 | 15.8 | 14.5 | | |
| -female | e | | 17.1 | 14.4 | 12.5 | | |
| 4. Long-term unemployment rate (%) total | e | | 11.4 | 10.2 | 9.1 | | |
| -male | e | | 11.4 | 10.5 | 9.4 | | |
| -female | e | | 11.5 | 9.9 | 8.7 | | |
| 5. Youth unemployment (15-24 years old) rate (%) total | e | | 39.8 | 36.5 | 31.9 | | |
| -male | e | | 39.2 | 37.4 | 34.1 | | |
| -female | e | | 40.8 | 34.9 | 27.7 | | |
| 6. Young people (15-24 years old) not in employment, education or training (NEET), in % | e | | 29.6 | 27.0 | 25.9 | | |
| 7. Early school leavers, in % (Eurostat definition) | e | | 21.3 | 19.6 | 19.6 | | |
| 8. Participants rate in early childhood education or care | e | | | | | | |
| 9. Gini coefficient | e | 27.1 | | | | | |
| 10. Inequality of income distribution S80/S20 | e | 3.5 | | | | | |
| 11. Social protection expenditure in % of GDP | e | | 9.23 | 9.44 | 9.28 | 9.0 | 9.0 |
| 12. Health expenditure in % of GDP | e | | 2.69 | 2.83 | 2.92 | 2.9 | 2.9 |
| 13. At-risk-of-poverty before social transfers, % of the population | e | | | | | | |
| 14. Poverty rate (Please indicate which data are available for your country) | e | 14.3 | | | | | |
| 15. Poverty gap (Please indicate which data are available for your country) | e | 3.0 | | | | | |
| Other indicators used in the EU Social Scoreboard | | | | | | | |
| 16. Real adjusted GDHI – per capita in PPS (Index 2008=100) | | | | | | | |
| 17. Impact of social transfers (other than pensions) on poverty reduction | | | | | | | |
| 18. Self-reported unmet need for medical care | | | | | | | |
| 19. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills) | | | | | | | |

Table 10a: Costing of structural reform measures

| Reform measure 01: Further liberalisation of the energy market | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 70 million | 70 million |
| 2020 | 0 | 0 | 0 | | |
| 2021 | 0 | 0 | 0 | | |

| Reform measure 02: Diversification of energy sources through the promotion of production and consumption of energy from renewable sources | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 0 | 3.4 million |
| 2020 | 0 | 0 | 0 | 0 | 4 million |
| 2021 | 0 | 0 | 0 | 0 | 1.25 million |

| Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 |

| Reform measure 04: Defragmentation and consolidation of agricultural land | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 9,880 | 230,769 | 0 | 76,923 | 317,572 |
| 2020 | 9,880 | 230,769 | 0 | 0 | 240,649 |
| 2021 | 9,880 | 230,769 | 0 | 0 | 240,649 |

| Reform measure 05: Reform on the water and waste water sector[64] | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 301,339.28 | 104,166.66 | 7,440,476.19 | 77,719,828.86 | 93,861,437 |
| 2020 | 301,339.28 | 104,166.66 | 7,440,476.19 | 82,105,654.76 | 117,134,847 |
| 2021 | 301,339.28 | 104,166.66 | 7,440,476.19 | 80,729,166.66 | 136,940,265 |

| Reform measure 06: Property tax reform and establishment of a fiscal cadastre | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 24192 | 5120[65] | 1200000 | - | 1229212 |
| 2020 | 24192 | - | 1300000 | - | 1324192 |
| 2021 | 24192 | - | 1000000 | - | 1024192 |

| Reform measure 07: Reduce regulatory burden to businesses |
|---|

[64] COSTS FOR FINANCING EXISTING POLICIES FOR CONTINUOUS PROJECTS: (i) Technical support for the implementation of the reform in the water supply and sewerage sector (according to performance, loss reduction up to technical level 20% and water production measurement) Value of Contract/Project **14,697,105.65 EUR**. (ii) Supervision of: Technical support in implementation of the reform in the water supply and sanitation sector (according to performance, reduction of losses up to technical level 20% and measurement of water production). Value of Contract/Project **117,574 EUR.**

[65] Annual salary for one specialist*4=6 048*4=Euro 24 192
Average Cost of goods and services for 4 staff=average cost for one staff*4=Euro 1280*4=Euro 5 120

| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
|---|---|---|---|---|---|
| 2019 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 08: Reduce red tape and increase the efficiency of the institutions offering services to citizens and entrepreneurs** | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 188,760 | 37,700 | 0 | 254,500 | 480,960 |
| 2020 | 235,360 | 47,100 | 0 | 254,500 | 536,960 |
| 2021 | 281,310 | 56,100 | 0 | 254,500 | 591,910 |

| **Reform measure 09: Effective implementation of the national plan to reduce the level of NPL in the banking system** | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 10: Provide a single and transparent investment legal regime in the country** | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 11: Improve institutional capacity of the research and innovation system** | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 0 | 5200000 |
| 2020 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 12: Development of the broadband infrastructure for digital economy** | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 5500 | 520000 | 0 | 0 | 525500 |
| 2020 | 5500 | 0 | 0 | 0 | 5500 |
| 2021 | 5500 | 0 | 0 | 0 | 5500 |

| **Reform measure 13: Facilitate trade and reach greater synergy in the implementation of national trade facilitation measures and MAP REA** | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 20,400 | 0 | 0 | 0 | 20,400 |
| 2020 | 20,400 | 0 | 0 | 0 | 20,400 |
| 2021 | 20,400 | 0 | 0 | 0 | 20,400 |

| Reform measure 14: Finalisation of the pre-university curricular reform, training and hiring of teachers | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 0 | 5520000 |
| 2020 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 |

| Reform measure 15: Inclusive education | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 0 | 6800000 |
| 2020 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 |

| Reform measure 16: Expanding adoption of digital skills to schools | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 0 | 1500000 |
| 2020 | 0 | 0 | 0 | 0 | 1500000 |
| 2021 | 0 | 0 | 0 | 0 | 1500000 |

| Reform measure 17: Modernisation of pre-school education system financing | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 2.64 million | 0 | 0 | 0 | 2.64 million |
| 2020 | 2.64 million | 0 | 0 | 0 | 2.64 million |
| 2021 | 2.64 million | 0 | 0 | 0 | 2.64 million |

| Reform measure 18: Improve the quality and coverage of VET while ensuring linkages with the labour market | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 595,238 | 1,758,000 | 23,571 | 3,730,405 | 6,658,857 |
| 2020 | 595,238 | 745,300 | 30,000 | 3,730,405 | 6,400,221 |
| 2021 | 595,238 | 574,500 | 32,000 | 3,730,405 | 4,932,143 |

| Reform measure 19: Modernise public employment services, increase employment of women, youth and vulnerable people | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| **Implementation of employment promotion programs** | | | | | |
| 2019 | 0 | 0 | 7,900 million | 0 | 7,900 million |
| 2020 | 0 | 0 | 7,900 million | 0 | 7,900 million |
| 2021 | 0 | 0 | 8,661 million | 0 | 8,661 million |
| **Benefits from unemployment** | | | | | |
| 2019 | 0 | 0 | 4,740 million | 0 | 4,740 million |
| 2020 | 0 | 0 | 5,530 million | 0 | 5,530 million |

| | | | | | |
|---|---|---|---|---|---|
| 2021 | 0 | 0 | 5,925 million | 0 | 5,925 million |

| **Reform measure 20: Strengthening social protection, and social inclusion measures** | | | | | |
|---|---|---|---|---|---|
| Year | Salaries | Goods and services | Subsidies & transfers | Capital expenditure | Total |
| 2019 | 0 | 0 | 0 | 1,143,000 | 1,143,000 |
| 2020 | 0 | 0 | 0 | 1,370,000 | 1,370,000 |
| 2021 | 0 | 0 | 0 | 3,000,000 | 3,000,000 |

Table 10b: Financing of structural reform measures

| **Reform measure 01: Further liberalisation of the energy market** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| Total | 0 | 5 million | 0 | 0 | 15 million | 50 million | 0 | 70 million |

| **Reform measure 02: Diversification of energy sources through the promotion of production and consumption of energy from renewable sources** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | WBIF: 2.2 mn TAP AG: 2.2 | 0 | 0 | 7.85 |
| 2020 | 0 | 0 | 0 | 0 | WBIF: 3.5 mn TAP AG: 0.5 mn | 0 | 0 | 3.0 |
| 2021 | 0 | 0 | 0 | 0 | WBIF: 1.25 mn | 0 | 0 | |

| **Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 04: Consolidation and defragmentation of agricultural land** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central | Local | Other | IPA | Other | Project | To be | Total |

| | Budget | Budgets | national public finance sources | funds | grants | loans | determined | |
|---|---|---|---|---|---|---|---|---|
| 2019 | 317,572 | 0 | 0 | 0 | 0 | 0 | 317,572 | 317,572 |
| 2020 | 240,649 | 0 | 0 | 0 | 0 | 0 | 240,649 | 240,649 |
| 2021 | 240,649 | 0 | 0 | 0 | 0 | 0 | 240,649 | 240,649 |

| **Reform measure 05: Reform on the Water and Waste Water Sector** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 85,565,810.99 | 0 | 0 | 0 | 3,841,408.63 | 4,452,198.66 | 0 | 93,861,437 |
| 2020 | 89,951,636.89 | 0 | 0 | 0 | 27,181,190.47 | 21,181,904.76 | 0 | 117,134,847 |
| 2021 | 88,575,148.79 | 0 | 0 | 0 | | 48,363,095.23 | 0 | 136,940,265 |

| **Reform measure 06: Property tax reform and establishment of a fiscal cadastre** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 29213 | 0 | 0 | 0 | 1200000 | 0 | 0 | 1229213 |
| 2020 | 24192 | 0 | 0 | 0 | 1300000 | 0 | 0 | 1324192 |
| 2021 | 24192 | 0 | 0 | 0 | 1000000 | 0 | 0 | 1024192 |

| **Reform measure 07: Reduce regulatory burden to businesses** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 08: Reduce red tape and increase the efficiency of the institutions offering services to citizens and entrepreneurs** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| 2019 | 480,960 | 0 | 0 | 0 | 0 | 0 | 0 | 480,960 |
| 2020 | 536,960 | 0 | 0 | 0 | 0 | 0 | 0 | 536,960 |
| 2021 | 591,910 | 0 | 0 | 0 | 0 | 0 | 0 | 591,910 |

| **Reform measure 09: Effective implementation of the National Plan to reduce the level of NPL in the banking system** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 10: Providing a single and transparent investment legal regime in the country** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 11: Improve institutional capacity of the research and innovation system** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5200000 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 12: Development of the broadband infrastructure for digital economy** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 5500 | 0 | 0 | 0 | 520000 | 0 | 0 | 525500 |
| 2020 | 5500 | 0 | 0 | 0 | 0 | 0 | 0 | 5500 |
| 2021 | 5500 | 0 | 0 | 0 | 0 | 0 | 0 | 5500 |

| **Reform measure 13: Facilitate trade and reach greater synergy in the implementation of national trade facilitation measures and MAP REA** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public | IPA funds | Other grants | Project loans | To be determined | Total |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | finance sources | | | | | |
| 2019 | 20,400 | 0 | 0 | 0 | 0 | 0 | 0 | 20,400 |
| 2020 | 20,400 | 0 | 0 | 0 | 0 | 0 | 0 | 20,400 |
| 2021 | 20,400 | 0 | 0 | 0 | 0 | 0 | 0 | 20,400 |

| **Reform measure 14: Finalisation of the pre-university curricular reform, training and hiring of teachers** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 5520000 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 15: Inclusive education** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 6800000 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

| **Reform measure 16: Expanding adoption of digital skills to schools** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1500000 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1500000 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 1500000 |

| **Reform measure 17: Modernisation of pre-school education system financing** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 2.64 mn | 0 | 0 | 0 | 0 | 0 | 0 | 2.64 mn |
| 2020 | 2.64 mn | 0 | 0 | 0 | 0 | 0 | 0 | 2.64 mn |
| 2021 | 2.64 mn | 0 | 0 | 0 | 0 | 0 | 0 | 2.64 mn |

| **Reform measure 18: Improve the quality and coverage of VET while ensuring linkages with the labour market** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national | IPA funds | Other grants | Project loans | To be determin | Total |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | | public finance sources | | | | ed | |
| 2019 | 3,395,857 | 0 | 0 | 0 | 1,000,000 | 2,263,000 | | 6,658,857 |
| 2020 | 2,575,221 | 0 | 0 | 0 | 2250000 | 1575000 | | 6,400,221 |
| 2021 | 2,520,143 | 0 | 0 | 0 | 1250000 | 1162000 | | 4,932,143 |

| **Reform measure 19: Modernise public employment services, increase employment of women, youth and vulnerable people** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 17,226 | 0 | 0 | 9,1 | 0 | 0 | 0 | 26.326 |
| 2020 | 18,157 | 0 | 0 | 0 | 0 | 0 | 0 | 18,157 |
| 2021 | 19,356 | 0 | 0 | 0 | 0 | 0 | 0 | 19,356 |

| **Reform measure 20: Strengthening social protection, and social inclusion measures** | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Year | Central Budget | Local Budgets | Other national public finance sources | IPA funds | Other grants | Project loans | To be determined | Total |
| 2019 | 0 | 0 | 0 | 0 | 0 | 9.66 million | 0 | 0 |
| 2020 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2021 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2018-2020[66]

| | **Reform measure 01: Further liberalisation of the energy market** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | Further improvement of the legal and regulatory framework of the power sector.<br>The establishment of the Albanian Power Exchange.<br>DCM No. 519 of 13.07.2016 "On the approval of the Electricity Market Model" authorises the MIE and the Albanian TSO S.A. to prepare the necessary acts for the setup of the Albanian Power Exchange. MIE will decide within 31 December 2017, to start the operation of the Albanian Power Exchange, upon the fulfilment of legal, technical and regulatory steps, as stipulated by the Albanian Electricity Market Model. To this purpose, a working group was established by order of the Minister of Infrastructure and Energy.[67]<br>The Working Group, based on the legal assessment of the experts and discussions of the meetings, concluded that the option identified to enable the setup of the Albanian Power Exchange, requires the amendment of certain provisions of Law No 43/2015 of 30.04.2015 "On Power Sector". To this purpose, a draft Law "On some addenda and amendments to Law No 43/2015 of 30.04.2015 'On Power Sector" is prepared, aiming to amend Articles 3, 57 and 99 of the Law No 43/2015 "On Power Sector". The draft Law was submitted for opinions to line ministries and other responsible institutions. Comments are taken from several institutions. The set-up of the Albanian Power Exchange depends on the adoption and entry into force of amendments to Law No 43/2015 of 30.04.2015 "On Power Sector". | 3 |
| | The complete process of unbundling the distribution activity from the supply. The distribution activity is still functionally bundled with the supply. The power sector law requires unbundling only by 31December 2017 in contravention of the third package. DSO (Distribution System Operator) has prepared the unbundling plan and has selected a consulting company for this issue. | 3 |
| | Completion of the project in the transmission system: Construction of 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM), Albania's part and upgrade of 400/220 kV Elbasan2 SS. | 1 |
| Description of implementation and explanation if partial or no | The Law No 7/2018 of 15.02.2018 "On some amendments and addenda to Law No 43/2015 of 30.04.2015 'On Power Sector" was adopted by the Albanian Parliament. The Law No 7/2018 of 15.02.2018 was published in the Official Gazette No 32 of 9.03.2018 entered into force on 25.03.2018. | |

[66] 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

[67] Order No 280 of 01.09.2016 "On the establishment of a Working Group to prepare the acts and measures necessary for the set-up of the Albanian Power Exchange"

| | | |
|---|---|---|
| implementation | The amendments introduced by Law No 7/2018 of 15.02.2018 remove the legal obstacles for the establishment of the Albanian Power Exchange. The set-up of the Albanian Power Exchange aims to fulfil the obligations of the Republic of Albania as a member of the Energy Community and to implement the Government's policies for the liberalisation of electricity market and the creation of an electricity trading market. In this view, these amendments introduce new deadlines for the setup of the Power Exchange in Albania. Within six months after the publication of the Law, the Council of Ministers will approve a decision on the set up of the APEX Company and the conditions for its establishment. This requires the approval of the decision of Council of Ministers within September 2018.<br>The Albanian Transmission System Operator (OST S.A.) and the Ministry of Infrastructure and Energy are closely collaborating to prepare the draft Decision of Council of Ministers, with the support of an external consultant. Currently an agreement is reached on the draft Decision of Council of Ministers and the "Shareholders Agreement" by (stakeholders) OST S.A., Kosovo's Transmission, System and Market Operator J.S.C. (KOSTT), International Finance Corporation (IFC) and Albanian Ministry of Infrastructure and Energy. The working group is working to finalise these legal act before submitting them for comments to line ministries.<br>As was provided in Article 3 of the Law No 7/2018 of 15.02.2018 "On some amendments and addenda to Law No 43/2015 of 30.04.2015 'On Power Sector", the final customer supplied with electricity by the supplier of last resort and who, as foreseen in the Article 109 of the Law No 43/2015 of 30.04.2015, enters for the first time in the liberalised market, is obliged to sign a supply contract with a new supplier within two years from the start of the supply contract from the supplier of last resort. At the end of this period, the system operator interrupts the power supply to this customer.<br>One important element to note is that this amendment (the period of two years) takes into account the lack of customer experience to operate into the liberalised market, and gives to the customers the necessary time to adapt to the transition from the regulated market to the liberalised market.<br>Starting from 1 January 2018, all the customers connected to 35 kV should be supplied in the unregulated market, but until now only a limited number of customers (6 – 10 customers) connected to the 35 kV grid have chosen to be supplied in the unregulated market. According to these amendments of the Law No 43/2015 of 30.04.2015, all the customers connected to the 35 kV grid, by the end of 2019 will | |

| | | | |
|---|---|---|---|
| | | not be supplied by the OSHEE S.A. as a Last Resort Supplier. | |
| | | 1) The legal and functional unbundling of Distribution System Operator (OSHEE S.A.), which aim the unbundling of distribution from the supply activity, as stipulated by the article 72 of the Law No 43/2015 of 30.04.2015 "On Power Sector" had to be carried out within December 2017. For this purpose, OSHEE S.A. has prepared the unbundling plan and has selected the COM METODI S.P.A as a consulting company for this process. The unbundling model was approved by the Supervisory Council of OSHEE S.A. with its Decision No 65 of 19.12.2016 "On approval of the corporate model" and also by the Minister of Energy and Industry as the General Assembly of the Company.<br>By order of the Minister of Infrastructure and Energy (MIE) No. 157 dated 12.02.2018 "On the creation of three companies controlled by the Electricity Distribution Operator", was ordered the creation from the OSHEE S.A (the parent company) of the three controlled companies, with the aim of splitting the distribution activity, the universal service of supply and the sales activity in the free market of electricity.<br>The administrator of OSHEE S.A has completed the registration of the 3 companies at the National Business Centre, in March 2018.<br>According to Law no. 9901, dated 14.04.2008 "On Traders and Companies", amended, Law 43/2015 "On Power Sector", amended and the General Assembly Order No. 157, dated 12.02.2018 "On the creation of three companies controlled by the Electricity Distribution Operator", OSHEE S.A, in the capacity of the Founding Shareholder, has established three new companies controlled as follows:<br>Universal Service Supplier S.A (FSHU), with the object of activity "Electricity supply of end-customers operating in the regulated market defined by the legislation in force". This company was established on 28.03.2018 and registered in the National Business Centre on 30.03.2018, with Unique Identification Number L81530016L.<br>Free Market Supplier S.A (FTL), with the object of activity "Purchase and management of electricity and operation in the free market, etc.". This company was established on 28.03.2018 and registered in the National Business Centre on 30.03.2018, with Unique Identification Number L81530029T.<br>Distribution System Operator S.A (OSSH), with the object of activity "Distribution of electricity, construction, operation and maintenance of the electricity distribution network for the supply of electricity to customers, connection of customers and users of the network electricity distribution, installation and electricity measurement services, etc.". This company was established on 28.03.2018 and registered in the National | |

| | | |
|---|---|---|
| | Business Centre on 30.03.2018, with Unique Identification Number L81530018E.<br>In compliance of the order of the Minister of Infrastructure and Energy (MIE) no. 157 dated 12.02.2018 "On the creation of three companies controlled by the Electricity Distribution Operator" the work is in progress for the functional unbundling of Distribution System Operator (OSHEE S.A.). | |
| | 2) On 9 January 2018, the Transmission System Operator S.A. signed a contract with the German consultant Fichtner GmbH and Co.KG for consultancy services on the 400 kV interconnection line Albania – Macedonia, Elbasani – Fieri line and the extension of the Elbasani 2 substation and Fieri substation. Consultancy will cover the 12 month phase of project preparation and tendering, as well the 24 month phase implementation and its completion.<br>The contract became effective on 16 April 2018. The preparation of the project design and tender documents has started. The project is foreseen to be finalised in 2021. | |

| | **Reform measure 02: Diversification of energy sources through the promotion of production and consumption of energy from renewable sources** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1. Adoption of the Gas Master Plan for Albania and Project Identification Plan, financed by a grant from WBIF. | 5 |
| | 2. Improving and strengthening the administrative capacities in the Albanian Gas Sector, financed by a grant from Swiss Government. | 3 |
| | 3. Preparation and approval of the feasibility study for the gas pipeline, connecting the TAP project in the Compressor Station Area in Fieri region, with the Vlora TPP (Thermo Power Plant). | 5 |
| | 4. Completion and adoption of the secondary gas legislation based on the new gas law. | 4 |
| | 5. Preparation and approval of the preliminary design for the Albanian and Montenegrin part of IAP Project. | 2 |
| | 6. Preparation and approval of the prefeasibility study for the ALKOGAP Project (Albanian Kosovo Gas Interconnector). | 4 |
| Description of implementation and explanation if partial or no implementation | 1.The reform is under implementation | |
| | 2. Several important measures have been taken to liberalize the energy market followed by the on-going process for the preparation and approval of secondary gas legislation, along with the preparation and approval of the Gas Master Plan and Projects Identification Plan by the DCM no. 87, dated 14.02.2018. An important process was the completion of the establishment of the new gas company “Albgaz S.A.”. The Council of Ministers adopted a decision for the establishment of “Albgaz S.A.” and the appointment of the public authority representing the state as owner of the shares of “Albpetrol S.A.” and “Albgaz S.A.”. (DCM No. 848, dated 7.12.2016, "On the establishment of the company "ALBGAZ" S.A. and determination of the public authority representing the state as | |

| | | |
|---|---|---|
| | the owner of the shares of the companies "ALBPETROL" S.A. and "ALBGAZ" S.A."). "ALBGAZ" S.A. is engaged on the activity for the maintenance of the gas-pipeline Trans Adriatic Pipeline (TAP) during the operation phase, entering in a Joint Venture with Italian gas transmission company Snam S.p.a. (Refer to the DCM No. 164, dated 21.03.2018, "On the negotiation with the private partner selected by "ALBGAZ" S.A., for the establishment of a joint company for the maintenance of the transmission network built by Trans Adriatic Pipeline AG in the territory of the Republic of Albania "). | |
| | 3. Currently, "Albgaz sha" has received certified by the Energy Regulatory Entity (ERE) to operate as the Gas Transmission Operator; moreover, ERE has approved the temporary tariffs that will be applied by "Albgaz sha" for gas transmission (Decision no. 179, dated 08.11.2017, of the Board of ERE, "On Certification of the "Natural Gas Combined Operator" Company, ALBGAZ sh.a.") Meanwhile, ERE has adopted Decision No. 187, dated 10.11.2017, of the Board of ERE "On the licensing of ALBGAZ S.A.company in the natural gas distribution activity" and Decision No. 188, dated 10.11.2017, of the Board of ERE "On the licensing of the ALBGAZ S.A. company in the natural gas transmission activity". | |

| | **Reform measure 04: Consolidation and defragmentation of agricultural land** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1. Management of Sustainable Agriculture Land Program includes; Soil Resource Inventory and Agricultural Land Suitability Assessment according to the FAO Framework. Land Use Data Collection and Land-use Change Analysis based on Parcel level. Integration of Land Information into Geographic Information System (GIS). Agro-Ecological Study and Partial Digitalisation of Agricultural Land Register. | |
| Description of implementation and explanation if partial or no implementation | 1. Creation of Land Information System (LIS) and integration into Geographic Information System (GIS) will realise for 37294 Ha instead of 63000 Ha because of lack of clarity which institution will implement it. | |

| | **Reform measure 05: Reform on the Water and Waste Water Sector** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1. Meetings in the framework of the consulting process for developing the national sectorial program for integrated water management 2018-2030 | 4 |
| | 2. Meetings in the drafting of the National Plan for Water Supply and Sewerage for the Coastal Area of Tourism Importance 2018-2030 | 3 |

| | | |
|---|---|---|
| | 3. Meetings in the drafting framework of the "Master Plan of Water SUPPLY AND SEWERAGE SERVICES SECTOR" | 4 |
| | 4. Meetings on the framework of the agreement of the performance contracts with the water supply and sewerage utilities | 4 |
| | 5. Meetings within the initiative of reducing network losses with 8 water utilities (Measures plan discussion) | 3 |
| Description of implementation and explanation if partial or no implementation | 1. Good Governance Pillar<br>Revision of the Regulatory, Institutional and Financial Framework. | |
| | Effective Investments Pillar 2. Improvement of Asset Management viewed from the Physical and Financial standpoints | |
| | 3. Improvement of Human Resource Management Programs | |
| | Creation of Awareness Raising Programs | |
| | Project Research Framework Improvements and Prioritizations | |
| | Implementation of Projects on the bases of typology and territory including a good performance prerequisite | |
| | Action Against Informality Pillar<br>In 2017 this pillar was first instigated with a preparatory phase that raised awareness for the action, with the first quarter of 2018 implementing the Understanding Phase (self and voluntary regulation), Force Stage (enforcement and control) currently on-going, and Brain Stage (continuity of verification and information awareness) planned to start after August 2018 | |

| | **Reform measure 06: Property tax reform and establishment of a fiscal cadastre** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | A **dedicated structure is created** in March 2018 as a subordinate agency of Ministry of Finance and Economy 'General Directorate of Property Tax', with 13 staff. | 4 |
| | Ministry of Finance and Economy has realized **all legal changes** and Council of Minister's decisions related to the implementation of the property tax as follows:<br>1. Law No. 9632, dated 30.06.2006 "On the Local Tax System" as amended in November 2017.<br>2. CMD no.132, dated 07.03.2018 "On the property tax methodology".<br>3. CMD no.171, dated 28.03.2018 "On the organization and functioning of the General Directorate of Property Tax ".<br>4. CMD no.273, dated 16.05.2018 "On the Establishment of the Central Database Register of Local Property Tax Calculation, Buildings".<br>5. CMD no.235, dated 02.05.2018 "On the approval in principle of the Contribution Agreement between the government of the Republic of Albania, represented by the Ministry of Finance and Economy (receiver), and the Swedish International Cooperation Agency (SIDA), for project support "Implementation of property | 5 |

| | | |
|---|---|---|
| | tax on the market based value, version 0.93, dated 20 February 2018 "<br>The entire legal package is linked to the Fiscal Cadastre as a project and not just as a database register. Furthermore, on May 28th, MoFE started the operational work together with National Agency for Information Society (NAIS) for the construction of virtual machine (server and software) of fiscal cadastre. Several sample data from the database to be used for the fiscal cadastre have been obtained to start preliminary testing in the system. The System was launched in November 2018 in 61 municipalities. In this system municipalities can carry out the registration of about 1.5 million property units (buildings). Currently, from the OSHEE census we have about 650,000 property units identified by the owner / possessor and the surface. Starting from November 2018, all municipalities can register the remaining property/unit properties. The Fiscal Cadastre System will begin to "produce" with information the assessment of the property tax liability for each property unit after 01 January 2019. A Joint Order, no.234, dated 10.09.2018, between Ministry of Finance and Economy and the Ministry of Justice has been approved to facilitate the exchange of information[68]. Referring to the transitional period, it is related to the legal space that calculates the obligation to pay the property tax. The property tax is an annual liability and since we are doing the methodological changes, then all municipalities have the space to calculate and notify the tax liability up to the end of 2018. Since some municipalities collect the tax, monthly by water supply and sewerage agents, then the differences of the liability could be done up to the end of 2018 without applying penalties for the taxpayer.<br>Until the Fiscal Cadastre begins to "produce" with information the assessment of the property tax liability, the property tax will be collected by the same collection channels (agents) that was made earlier. There are some municipalities that use municipal tax offices and some others that use water supply and sewerage agents for tax collection. | |
| | 3. **Training of the staff** in municipalities. This activity is completed according to the 2018 training plan. 61 municipalities were trained as part of the project on the IT system usage. As well, more trainings have been provided from the General Directorate of Property Tax, considering the needs for 39 municipalities, However further trainings are foreseen for 2019 and 2020 according to the municipalities needs. | 5 |
| Description of implementation and explanation if partial or no implementation | 1. During 2018 has been appointed the general director. In addition, two directors and 6 specialists were hired through the process of civil servant selection. This process to fully staff this structure remains a challenge for 2019. Therefore, first activity planned for 2018 is partial completed since remain to be hired four specialists in order to fully staff the respective structure. | |

| | **Reform measure 07: Reduce regulatory burden to businesses** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1.Elimination of unnecessary licences issues by central institutions and adoption of relevant legal amendments (21 permits and licences and 15 laws to be amended) | 5 |
| | 2.Facilitation of procedures for issuing licences, permits and authorisations from central institutions, and the adoption of the relevant law amendments. | 5 |
| Description of implementation and explanation if partial or no implementation | 1. Fully implemented | |
| | 2. Fully implemented | |

| | **Reform measure 09: Effective implementation of the National Plan to reduce the level of NPL in the banking system** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1. Framework agreement on restructuring of out of court debt. | 4 |
| | 2. Treatment of 35 groups/companies with higher debt. | 5 |
| | 3. Lending based on tax declarations (application to a greater extent). | 5 |
| Description of implementation and explanation if partial or no implementation | 1. In mid-2018, BoA with the support of international experts from World Bank and of permanent adviser of the IMF finalized the so called "Tirana Approach", that currently is under consultation with the banking industry. The newly drafted Regulation *"On out-of-court treatment from banks, of borrowers in financial difficulties"* complement the current in –force out-of-court guidelines with Inter Creditor Agreement, Creditor-Debtor Agreement and will have in focus solving out only nonperforming multi-lender exposures exceeding a certain threshold.<br>This draft Regulation is already published in Bank of Albania website for consultation and is expected to be approved soon from the Supervisory Council | |

| | **Reform measure 12: Development of the broadband infrastructure for digital economy** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1. Drafting and approval of sublegal acts | 3 |
| | 2. Roundtable with municipalities, market players and regulators | 5 |
| | 3. Study visit in Kosovo with the representatives of Ministry of Infrastructure and Energy | 5 |
| | 4. Workshop on "Infrastructure Sharing in Albania: National and Regional perspectives" | 5 |
| | 5. Kick-off meeting of "WB19-ALB-DII-01 Albania, Regional Broadband Development: Feasibility Study" | 5 |
| Description of | 1. The package of sublegal acts is under review and | |

| | | |
|---|---|---|
| implementation and explanation if partial or no implementation | preparation for a final consultation process, before to submit for approval by Council of Ministers | |
| | 2. The aim of the meeting was to discuss on the sublegal acts and to ask them their views and comments on this package | |
| | 3. The study visit was organised in order to exchange information on the implementation of pilot projects for broadband development in rural and remote area | |
| | 4. The aim of the workshop, who was attended by the representatives of telecom sector, energy sector and municipalities, was on infrastructure sharing regulatory framework and discussion on the possibilities of usage of spare fibre optic of energy transport operator for broadband connectivity. | |
| | 5. The kick-off meeting was organized to start the process of the feasibility study, the first step of which is the preparation of Terms of Reference | |

| | **Reform measure 13: Facilitate trade and reach greater synergy in the implementation of national trade facilitation measures and MAP REA** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1. Effective implementation of the implementing provisions of the Customs Code, including the implementation of the AEO programme. | 5 |
| | 2. Promote AEO concept and mutual recognition of AEO programs under AP5 with private sector. | 4 |
| Description of implementation and explanation if partial or no implementation | 1. Law number 102/2014 of 31.07.2014 "The Customs Code of the Republic of Albania" became fully applicable on 1 June 2017. Articles 40 and 41 of the Customs Code regulate the status of the Authorised Economic Operators. For the implementation of the Customs Code, a decision of the Council of Ministers (DCM No. 651 of 10.11.2017 "On the implementing measures of the Law no. 102/2014 "The Customs Code of the Republic of Albania"" was approved. Under section 3, Articles 42 until 60 regulate the status of AEOs. Customs provisions related to AEO are aligned with the respective EU provisions. | |
| | 2. The General Directorate of Customs organised several meetings with Albanian exporters aiming to inform them on the facilities and benefits provided by the AEO status. | |

| | **Reform measure 18: Improve the quality and coverage of VET while ensuring linkages with the labour market** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1. Complete the development of the legal framework for VET, drafting and adoption of sub-legal acts in implementation of the VET Law, adoption of the Law on AQF, | 4 |
| | 2. Capacity development for VET teachers and trainers (by drafting policies for professional development, assessment of competences and training of VET teachers and trainers). | 5 |
| | 3. Assuring the quality of VET providers and improving the quality of VET inputs (labs and equipment, curricula, | 5 |

| | | |
|---|---|---|
| | teaching curricula), processes and outcomes. | |
| | 4. Increase of access to VET from rural areas and marginalized group. | 4 |
| Description of implementation and explanation if partial or no implementation | 1.There are 4 draft DCM under the process of approval by CoM and 2 DCM finalized<br>• "On the formalization of former non formal and informal learning";<br>• "On the criteria and procedures for the creation, reorganization and closure of public institutions, providers of vocational education and training";<br>• "On the organization and functioning of the National Agency for Education, Vocational Training and Qualifications";<br>• "On composition, functions, functioning, scope of activity, membership criteria and modalities of work of the National Council for Vocational Education and Training".<br>6 guidelines (instructions) are approved from of the Minister of Finance and Economy.<br>• Instruction no. 24, dated on 30.7.2018 "On procedures for the recognition and unification of vocational training and qualifications of Levels 2 to 5 of the Albanian Qualifications Framework, including those obtained abroad";<br>• Instruction no. 26, dated on 30.7.2018 "On the National Catalog of Professional Qualifications";<br>• Instruction no. 27, dated on 30.7.2018 "On curriculum formats and procedures of education and vocational training ";<br>• Instruction no. 28, dated on 30.7.2018 "On the criteria for participation, organization and functioning of the Governing Board of public providers of vocational education and training"..<br>• Instruction no. 16. Date 8.5.2018 "On the development of self-evaluation in the providers of vocational education and training".<br>• Law No 23/2018 of 10.05.2018 "On some amendments and addenda to Law 10247 of 4.3.2010 "On the Albanian Qualifications Framework (AQF)" was approved by the Albanian Parliament.<br>• AQF Task Force established three technical working groups to prepare the draft Decisions of Council of Ministers.<br>• With the assistance of European Training Foundation (ETF), the AQF Task Force organized two workshops on 20 and 21 June 2018, in order to consult the initial drafts of the Decisions of Council of Ministers on inclusion of Lifelong Learning Qualifications in the AQF and on establishing sector committees, with the relevant stakeholders. | |
| | 2. NAVETQ, with the support of donors, prepared the 24-day training on "Fundamentals of didactics on VET" in2016. | |

| | | |
|---|---|---|
| | During 2017, with support of donors, the 24-day training on "Fundamentals of didactics on VET" was delivered for 289 VET teachers and instructors and 114 are in process of training for 2018.<br>This training will be an obligatory a pre-service training for all VET teachers and instructors. Teachers, with support of ETF have set up professional networks based on on-line platform for exchange of teaching and preparation materials. Three professional exchange networks have been set up during 2017, the professional network of economics teachers | |
| | 3.<br>• Improving buildings, workshops and existing equipment at VET providers, including facilities for girls/women as well as amenities responding to the needs of people with disabilities, is pursued continuously by the Ministry of Finance and Economy. Investments are being supported from the state budget and various donors. IPA 2013, GIZ and Swiss Government<br>• During 2018, there were reconstructed, and are in the process of reconciliation 9 VET schools, they were also equipped with latest technology machinery and equipment. From IPA 2013, 9 schools and 4 VT Centers,<br>• During 2018, 10 vocational qualification descriptions / standards have been developed and 6 frame curricula, all accessible online. Currently, NAVETQ is in the process to develop three brand new qualifications relating to Agro tourism, Travel and Tourism Services and Hotel and Restaurant Services.<br>• In addition, NAVETQ provides different guidelines for VET teachers and providers, including assessment methods and tools (such as tests, projects, control checklist, etc.)<br>• Both Instructions of the minister "On the development of self-evaluation in the providers of vocational education and training", are adopted.<br>✓ 12 multiplicators have been trained to further train VET providers' representatives to implement self-evaluation process.<br>✓ More than 90 VET provider directors and teachers/instructors are further trained to implement self-evaluation process.<br>✓ The expected reports self-evaluation, are to be finalized and publish in May 2019. | |
| | 4. To increase the participation of persons from vulnerable groups in education and vocational training are taken these measures:<br>• Scholarships for students attending vocational schools come from families with economic problems, from Roma and Egyptian families, who follow the veterinary, farming profiles from the northeastern and southeastern areas of the country.<br>• Roma and Egyptian students who continue to study at | |

| | | |
|---|---|---|
| | vocational secondary schools benefit, free of charge, from clothing, books and notebooks.<br>• Unemployed jobseekers registered at employment offices attending vocational training courses (only vocational courses) receive it free of charge<br>The number of students from rural areas and marginalized groups is increased. Number of R/E are 519 and PDW is 108 students. 43% of students in VE schools are from rural area. | |

| | **Reform measure 19: Modernise public employment services, increase employment of women, youth and vulnerable people** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1.Investment for reconstruction and reorganization of 15 employment offices, regional and local | 4 |
| | 2. Mediations carried out by Employment Offices | 5 |
| | 3. Implementation of employment promotion programs | 5 |
| | 4. Training in VTC | 5 |
| | 5. Provision of unemployment benefits | 5 |
| | 6. Implementation of Economic Assistance Reform | 4 |
| Description of implementation and explanation if partial or no implementation | 1. Investments for reconstruction and organization of employment offices according to the new model of employment services have started in 7 employment offices and 5 other offices are in the tendering process. NES is making all the efforts to support the reconstruction and reorganization of the 3 remaining offices. The funds, from the state budget for this reform is 674,434 EUR, which will be spent in 2018. | |
| | 2. Mediation of employment offices enables unemployed jobseekers to find the best possible job and also helps employers find the most suitable candidate. | |
| | 3. Employment promotion programs, which work directly in the group of unemployed jobseekers to encourage them to find long-term employment, with a view to inclusion in programs, predominantly vulnerable groups. | |
| | 4. The vocational training program aims at the training of unemployed jobseekers registered at employment offices, on short-term course 3-4 month, in the professions required on the labour market, provided by public vocational training centres, to integrate them and reintegrated into the labour market. | |
| | 5. The unemployment payment program is part of the passive employment policies, which provide income support to the unemployed at the time of their exit as such, aiming to create the conditions for their return to the labour market.<br>In March 2018, the Ministry of Finance and Economy adopted the DCM No. 161, dated 21 March 2018 "On the payment of unemployment benefits". Through this DCM it was achieved that this payment is equal to 50% of the minimum wage, thus fulfilling the condition provided for in Convention no. 168 "Encouraging employment and protection against unemployment". So with the increase of | |

| | | |
|---|---|---|
| | the minimum wage scale nationwide this payment will increase automatically. | |
| | 6.Implementation of Economic Assistance Reform<br>The first effects of the implementation of this program (October 2018 data) are: 78 unemployed job seekers have started courses and 148 others will start their courses in November 2018 in the professions: tailoring, kitchen, plumbing, caretaker, bartender, mechanic, electric, car mechanic sewing, barber, auto-service etc . Also, during the implementation of economic aid reform, employment offices have handled 14,300 persons, beneficiaries of the economic aid scheme, of whom 3,301 persons were employed and 506 persons were sent to attend vocational training professional courses in public professional centres. | |

| | **Reform measure 20: Strengthening social protection, and social inclusion measures** | Stage of reform implementation (1-5) |
|---|---|---|
| Activities planned for 2018 | 1.Approval of relevant legislation to implement reform on Social Assistance | 5 |
| | 2 Local government units" percentage of efficient use of automated MIS to process EA applicants" registration, beneficiary selection, program enrolment, and payment orders. | 4 |
| | 3. Percentage of households receiving benefits for the NE program that have been screened for eligibility using the Unified Scoring Formula increase with 5%. Percentage of households in the poorest 10% that are covered by the Economic Aid Program from 21.6 % by mid-2017 to 38% in 2018 | 5 |
| | 4.Adoption of Social Model for Disability Assessment eligibility assessment | 5 |
| | 5. Increase the financial sustainability of the pension and social insurance scheme. | 4 |
| | 6. Improved reporting and assessment to target poverty reduction, social inclusion and equal opportunities for vulnerable groups through monitoring of action plans for social inclusion and gender equality. | 5 |
| Description of implementation and explanation if partial or no implementation | 1. Relevant legislation has been approved to support the reform such as:<br>-DCM no. 136/2018 on specific rules of operation and administration of the National Electronic Register, for the management of citizens in need cases, including all local and central actors, public and private entities providing social services for the needy categories.<br>-DCM No.111/2018 establishing a Social Fund with the sources of funding for the social care services provided from the state budget, municipal budgets, donations and other sources.<br>-DCM Nr. 149/2018 on alternative care service procedures.<br>-DCM 518/2018 sets the criteria and procedures for | |

| | | |
|---|---|---|
| | beneficiaries of services delivered in residential and community centres. | |
| | 2. Targeting of the economic aid scheme has improved with an impact on poverty reduction. Transparency and effectiveness with proper checks and systemic intervention. Economic Aid MIS has been developed and is now operational across the country. The data can be cross-checked with other institutional data.<br>Increased (administrative) efficiency is also measured by the reduced time needed to determine eligibility (currently 5 days, compared to 25 at baseline). The national roll-out of the NE reforms is expected to further improve outcomes.<br>Reforms related to the Disability assessment has been piloted in two administrative areas in Tirana. | |
| | - Beyond services to vulnerable groups increased in 19 municipalities benefiting 750 PwDs and 7,000 Roma/Egyptians;<br>- INSTAT trained to improve and standardize social inclusion data collection system in compliance with EU SILC requirements;<br>- Financial framework designed for efficient operation of social enterprises;<br>Secondary legislation developed and 4 CoM Decisions approved to ensure implementation of the Law on Social Care Services<br>Action Plan on implementation of GREVIO's recommendations addressed to Albania developed and approved by the National Council on Gender Equality; Knowledge Attitude and Practice survey conducted, to be launched in October 2018; Regulatory framework prepared defining standards of services to be provided by the emergency municipal facilities for GBV&DV victims; Monitoring Network against Gender Based Violence (composed of 46 CSO members) established; 19 CCR mechanisms established, 4 reactivated and all strengthened. | |

**ANNEX II**

## EXTERNAL CONTRIBUTIONS TO THE ERP 2019-2021

The Economic Reform Programme for the medium-term period 2019-2021 was shared for public consultations with the partners for development and integration, and with the Civil Society, business organisations, etc. The process of collecting, consolidating, and reflecting of the feedback received as part of the public consultation involved both the ERP national coordinator office, and the public institutions has been extended in time throughout the ERP drafting and preparation process.
In this annex of the ERP 2019-2021 document, has been consolidated all the received feedback that was sent as part of the public consultation process. Where possible, the feedback received by the external stakeholders has been incorporated in the document in coordination with the responsible ministries. The document has undergone several revisions since the time of receiving the feedback, and as a result some inconsistencies or outdated references to reform measures, page numbers are to be expected since the team has strived to keep the feedback as untouched as possible.

### I. GERMAN PARTNERS FOR DEVELOPMENT AND INTEGRATION (GERMAN EMBASSY, GIZ/PROSEED)

- Innovative businesses are key to competitiveness in the global economy today. They are the strongest generators of employment and income. **Entrepreneurship-promotion and start-up support for employment promotion are completely missing in the strategy**.
- *Reform measure 07: Reduce regulatory burden to businesses*: **Administrative burdens are not the main obstacles for start-ups**, but challenges associated with early stage financing, relatively low awareness of the benefits of innovative entrepreneurship, access to qualified staff etc.
- In the section *4.3.6 Education and skills* it is stated that with regards to the new VET Law currently 8 acts (guidance) are finalized and 5 decisions are in the process of being approved. We perceive the situation far more challenging as the sub legal acts are drafted but still there is not a date when the entire package of sub legal acts will be approved. **The VET system and institutions are not acting based on the new legal provisions**. The new National Agency of Employment and Skills has not been established. NAVETQ needs a regulatory framework to become fully operational.
- *Reform measure 14: Improve the quality and coverage of VET while ensuring linkages with the labour market*: 1) 2019 ->Proposal to include the **Inspection of VET system** - external quality check function along with self-assessment process. 2) 2020 -> Elements of the dual system are present in the VET system and implemented with the support of the different donors. Now there is a need to go a step further, to identify and **agree on the elements that need to be institutionalized and/or formalized in cooperation with the business**. Such as Work Based Learning/Internships, etc.
- *Reform measure 15: Modernizing public employment services, increasing employment of women, youth and vulnerable people*: Will the new NAES be established according to the new VET law and the National Employment and Skills Strategy (NAES)? Is there any deadline in plan? The new Agency will play a critical role in the reorganisation of the Public providers of the VET (VSS and VTC management) and delivery of Active Labour Market Programmes (ALMP). Therefore, we propose to put the **establishment of NAES as the first reform measure in this section**.

### II. SWISS EMBASSY

**General comments**

- We commend the Government of Albania for its strong leadership and serious commitment in pursuing the implementation of the Economic Reform Programme.

- We highly appreciate the comprehensive and well-structured Economic Reform Programme which encompasses new reform actions, deep analysis of sector barriers, well identified priority measures to address them through implementation of new projects with estimated costs, planned sources of funding, assessed potential risks as well as expected impacts and indicators to measure them.
- Switzerland will contribute to realization of these reform measures on energy market liberalisation, diversification of energy sources, businesses environment, investment legal regime, VET, water and wastewater sector, employment, and social inclusion through implementation of its on-going and planned projects.

**Specific comments**

- We acknowledge the continued high importance given by the Government of Albania to the *strategic energy sector* to exploit its potential of making it a sustainable source of economic growth during the short- to medium- and long-term perspective.

- In the framework of *Reform measure 1: Further liberalisation of the energy market*, we would welcome the establishment and functioning of the **Albanian Power Exchange** which has been supported by IFC (among others with Swiss funding) with legal and technical assistance. We look forward to realization of complete process of unbundling the energy distribution activity from the supply.
- We suggest that the *indicator of getting electricity* which is measured annually by the *WB Doing Business Report* could be reflected either in this Reform measure 2 or under Reform measure 7: Reduce regulatory burden to businesses.
    - It is known that Doing Business records all required procedures. It measures the reliability of supply and transparency of tariffs index (included in the aggregate doing business score and ranking on the ease of doing business) and the price of electricity (omitted from these aggregate measures).
    - Key aspects of this indicator on getting electricity are as follows: (i) power outages; (ii) steps for business to file an electricity connection application and sign a supply contract; (iii) cost for a business to obtain a permanent electricity connection; (iv) days for a business to get an electricity connection.
- We suggest that *Reform measure 02: Diversification of energy sources* reflects the following important actions with the respective expected results and indicators which will be supported by Switzerland: (i) improvement of Albgaz TSO/DSO performance and tendering of Vlora Thermal Power Plant (supported through our on-going gas capacity building project); (ii) institutional development of Energy Efficiency Agency and implementation of two actions plans on Renewable Energy Sources and Energy Efficiency, through municipal energy management (supported through a new Swiss funded project on Smart Energy Municipalities).
- We suggest that key measures and indicators of these two actions plans on Renewable Energy Sources and Energy Efficiency could be reflected under this second reform measure.
- We suggest that *Reform measure 05: Reform on the Water and Waste Water Sector* reflects the indicators of percentage of cost coverage and quality of services where EU, KfW and Switzerland will contribute to their realization of two initiatives: (i) on-going municipal Infrastructure Programme III & IV which will embark on infrastructure investments in 6 municipalities in Spring 2019; (ii) new Water Sector Performance Investment Programme, covering 11 mid-sized municipalities, will be launched by the end of 2019.
- We suggest that *formalization of training and certification of workforce in the water sector*, which is mentioned on page 29, could be also reflected with its respective indicator on page 82 under item 3: Improvement of Human Resource Management Programs. Switzerland will contribute to enhance the skills/competences and knowledge of workforce in the water sector

through its regional initiative entitled: Regional Capacity Building Network, which is being implemented by GIZ.

- We suggest that *tourism and waste management* could be also considered to become priority reforms given the untapped potential of tourism sector plus improvement of waste management, which requires substantial financial resources.
- We suggest that cost benefit analysis of *Reform measure 15: Modernise public employment services, increase employment of women, youth and vulnerable people*, could be done in order to reflect realistic indicators. Switzerland will continue to contribute to this key priority reform of the Government of Albania through intertwined initiatives that focus on job creation, employment mediation and VET and skills development.

## III. DUTCH EMBASSY

**1. The public debt-to-GDP ratio has been reduced but remains a major source of macroeconomic vulnerability.**

Public debt (including guarantees) is still close to the relatively high level of 70 % of GDP. Taking into consideration the high number of PPPs and concessions in the last year, the real public debt is quite higher, which introduces the country to additional fiscal risks.

**2. Obstacles to improving potential economic growth moderately addressed.**

A weak judiciary, insufficient enforcement of property rights and burdensome administrative procedures are institutional weaknesses that have been only partially addressed compared to the ERP 2018-2020. This is hampering both local businesses and potential FDI inflows. These important weaknesses are moderately not being taken into account in the new document.

**3. Issues related to property rights and land registration continue to affect the competitiveness of the Albanian economy.**

Property rights are affecting infrastructure and industrial development, agriculture, the property market and, importantly, access to finance. Progress towards establishing a comprehensive cadastre has been slow. The ERP maintains a narrow view of the issue, prioritizing only agricultural land. There has been limited progress in establishing the legal basis for the creation of the e-cadastre.

**4. Energy sector potentials not properly exploited , especially the renewable sources:**

Albania has great potential for renewable energy production but the market is still not fully liberalized, the energy supply relies on hydropower and energy efficiency remains low. Some more efforts need to be systematically part of this structural reform to facilitate the infrastructure of renewable energy, as one of the biggest country assets.

**5. The small average size of agricultural holdings, the absence of a comprehensive land register and unclear land ownership remain key obstacles to the development of the sector.**

The diagnostic section correctly points to these challenges, but still fails to flag other problematic areas such as phyto-sanitary issues, veterinary capacity and high informality. Moreover, the ERP hardly assesses the negative consequences of climate change for the agricultural sector, (although it was suggested by some MS last year). In view of agriculture's significant economic contribution to both GDP and employment in Albania, the consolidation and defragmentation of agricultural holdings remains a major priority. This should allow the development of a more efficient and market-oriented agriculture sector, enabling economies of scale.

**6. More measures needed in the Water/Waste Water treatment structural reform**.

The ERP highlights water and wastewater as key issues in the Albanian economy, particularly the insufficient and non-sustainable water supply that constitutes an obstacle to competitiveness including the tourism sector. However, it fails to analyse the significance of the water sector for Albania’s hydropower and other related sectors including investments in such an important sector.

7. **The research, development and innovation (RDI) and the digital economy is at an early stage and has few (if any) positive effects on the economy yet.**

The lack of cooperation and coordination between the private sector, the government and academia constitutes the main obstacle to competitiveness and growth. Albania's RDI institutions are integrated into the global RDI programmes only to a very limited extent. This explains their low success rate in the EU R&D framework programme Horizon 2020. Public expenditure on RDI as a share of GDP is low. The current ERP diagnostic provides analysis of some of these shortcomings. The ERP correctly underlines the importance of well-developed broadband infrastructure for boosting the digital economy and establishing electronic platforms in the service sector. This is in line with the priorities of the 2020 Digital Agenda. However, the ERP does not address the low engagement of the private sector in RDI programmes. The implementation of a ‘smart specialization’ strategy should also be considered.