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Albania: 2001 Article IV Consultation and Review Under the Poverty Reduction and Growth Facility—Staff Report and Public Information Notice on the Executive Board Discussion

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2001 Article IV consultation with Albania and Review Under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- the staff report for the 2001 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on April 26, 2001, with the officials of Albania on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on June 29, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF;

- the Public Information Notice (PIN) summarizing the **views of the Executive Board as expressed during the July 13, 2001, Executive Board discussion** of the staff report that concluded the Article IV consultation;

The policy of publication of Article IV staff reports and PINS allows for the deletion of market-sensitive information.

The documents listed below have been or will be separately released

Selected Issues Paper and Statistical Appendix

*May also be included in Staff Report.

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ALBANIA

Staff Report for the 2001 Article IV Consultation and Review Under the Third Annual Arrangement Under the Poverty Reduction and Growth Facility

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

Approved by Jacques R. Artus and G. Russell Kincaid

June 29, 2001

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I. Introduction

1. A mission visited Tirana during April 11-26 to hold the 2001 Article IV consultation discussions and conduct the final review under the third annual arrangement under the Poverty Reduction and Growth Facility (PRGF).[1] Albania's relations with the Fund are summarized in Appendix I.

2. The Executive Board concluded the 2000 Article IV consultation on June 9, 2000 and approved the request for the third annual PRGF arrangement on June 30, 2000. Executive Directors commended the authorities for having maintained macroeconomic stability and improved tax collection, and encouraged them to give the highest priority to privatizing the Savings Bank. Directors reiterated these comments at the most recent Board meeting, on January 26, 2001, on the first review under the third annual arrangement. They also welcomed the further progress made in structural reform, especially in enterprise privatization, but expressed serious concern regarding the electricity crisis. Following the completion of the first review under the third annual arrangement, the cumulative disbursements reached the equivalent of SDR 40.34 million—which included a Kosovo-related augmentation of SDR 9.74 million—out of the total SDR 45.04 million committed under the three annual PRGF arrangements.

3. Political stability was maintained during the run-up to the general elections—the first round of which was held on June 24, 2001. The Socialist Party, which is leading the governing coalition, did well in the first round of the elections and is committed to continued close cooperation with the Fund following the end of the current arrangement on July 31, 2001. The hostilities in neighboring Macedonia have not so far had a major impact on Albania but an escalation might dampen the expected growth in foreign investment.

4. The authorities are determined to complete their Growth and Poverty Reduction Strategy paper (GPRS) through a participatory process by mid-2001—they have chosen this title for their paper to stress the growth element in their strategy. Given the timing of the general elections, the schedule for preparing the GPRS, and the budget cycle, discussions on a possible successor arrangement are expected to be completed after the Annual Meetings.

5. The World Bank has been collaborating closely with the Albanian authorities, notably as regards the participatory process for preparing a poverty reduction strategy, the

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[1]The mission met with Prime Minister Meta, Finance Minister Angjeli, Bank of Albania Governor Cani, and other ministers and officials. The staff team comprised Messrs. Samiei (head), Martijn, and Moon (all EU1), Ms. Ongley (PDR), Ms. Jenkner (FAD), and Ms. Shoobridge (Staff Assistant, EU1). The resident representative, Mr. Treichel, assisted the mission. Mr. Nardelli from the Executive Director's office attended the concluding meetings.

establishment of a medium-term expenditure framework (MTEF), the reform of the electricity sector, and the privatization of the Savings Bank (Appendix II). The second disbursement of the Bank's Structural Adjustment Credit was made at end-2000 and the Bank is planning a Poverty Reduction Strategy Credit (PRSC) in 2002 to support the authorities' poverty reduction plans.

6. The timeliness and quality of the macroeconomic data are adequate for program monitoring, but the data continue to suffer from serious deficiencies, especially in the real sector (Appendix III). A Report on Observance of Standards and Codes on data dissemination was prepared in June 2000 and Albania participates in the General Data Dissemination System.

7. Albania maintains exchange restrictions in accordance with Article XIV, in the form of outstanding debit balances on inoperative bilateral payments agreements (see paragraph 41 below).[2] Albania has not accepted the obligations of Article VIII. It does not maintain any exchange restrictions subject to approval under Article VIII. The authorities have requested the publication of the staff report for the 2001 Article IV Consultation and the final review under the Third Annual Arrangement under the PRGF.

II. Macroeconomic Developments and Performance Under the Program

8. **Sound macroeconomic management, supported by structural reforms, has characterized Albania's performance under the current PRGF arrangement, but much remains to be done to alleviate poverty and reduce emigration.** Since the collapse of the disruptive pyramid schemes in 1997, and despite the Kosovo crisis in 1999, cautious financial policies and generous external support have permitted sustained real growth, a significant easing of inflationary pressures, and sizable reductions in the overall and domestically financed fiscal deficits (Table 1, and Figures 1 and 2). Structural reform has included privatization of the second largest bank and the mobile telecommunications company, as well as major improvements in tax and customs administration. However, Albania remains one of Europe's poorest countries, with poverty concentrated in rural areas and reflected in ongoing outward migration—estimated to have totaled over 600,000 (about 18 percent of the current population) since 1991. While a continuation of strong growth and the decline in unemployment will help alleviate poverty, limited access to basic social services and low public expenditures on health and education—resulting in high infant mortality and a drop in school enrollment—highlight serious structural problems.

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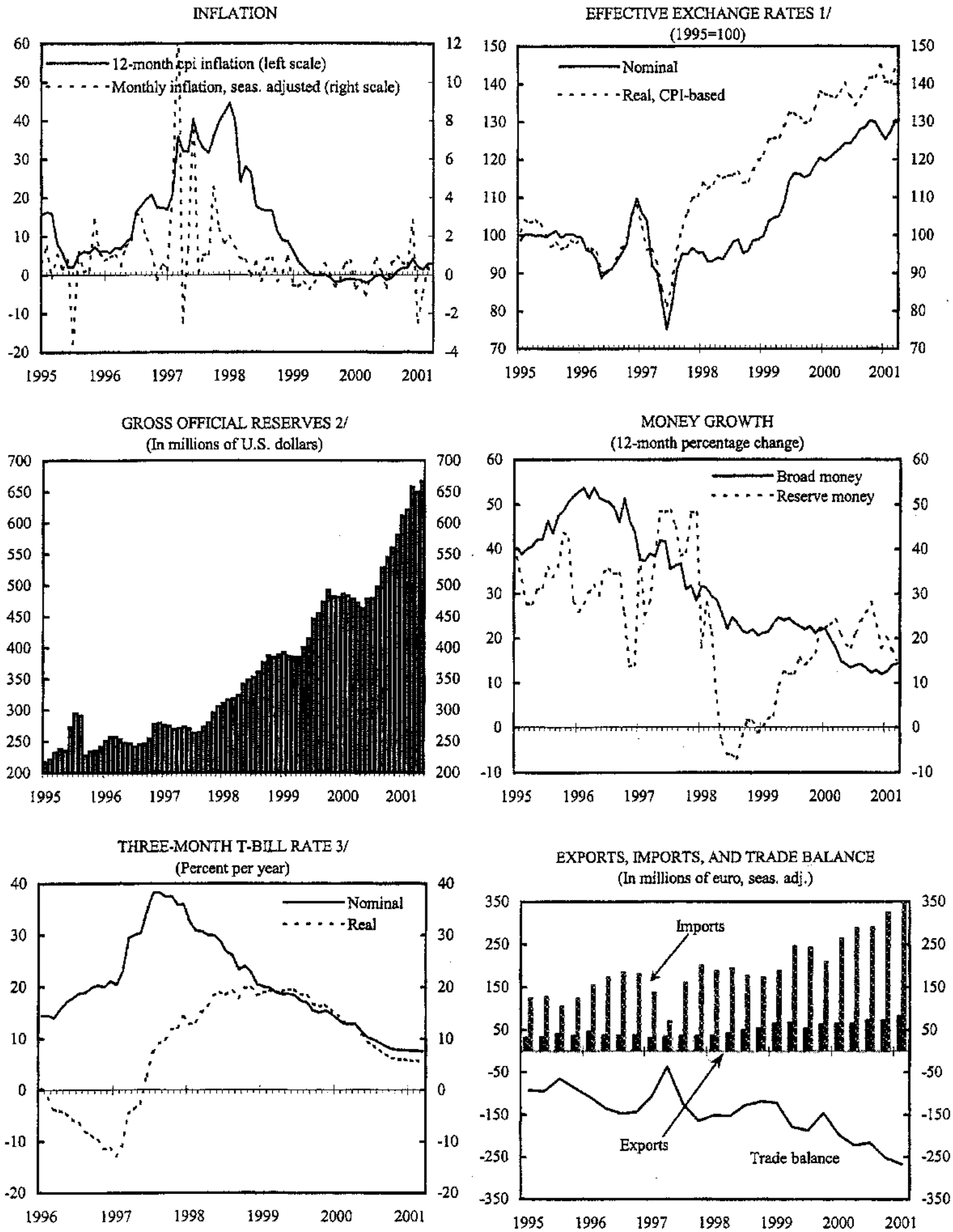
[2] These exchange restrictions were previously mischaracterized as being subject to approval under Article VIII. However, new information has revealed that they were in place on the date Albania became a member of the Fund in 1991 and have, therefore, been maintained in accordance with Article XIV.

Figure 1. Albania: Monthly Economic Indicators, 1995-2001



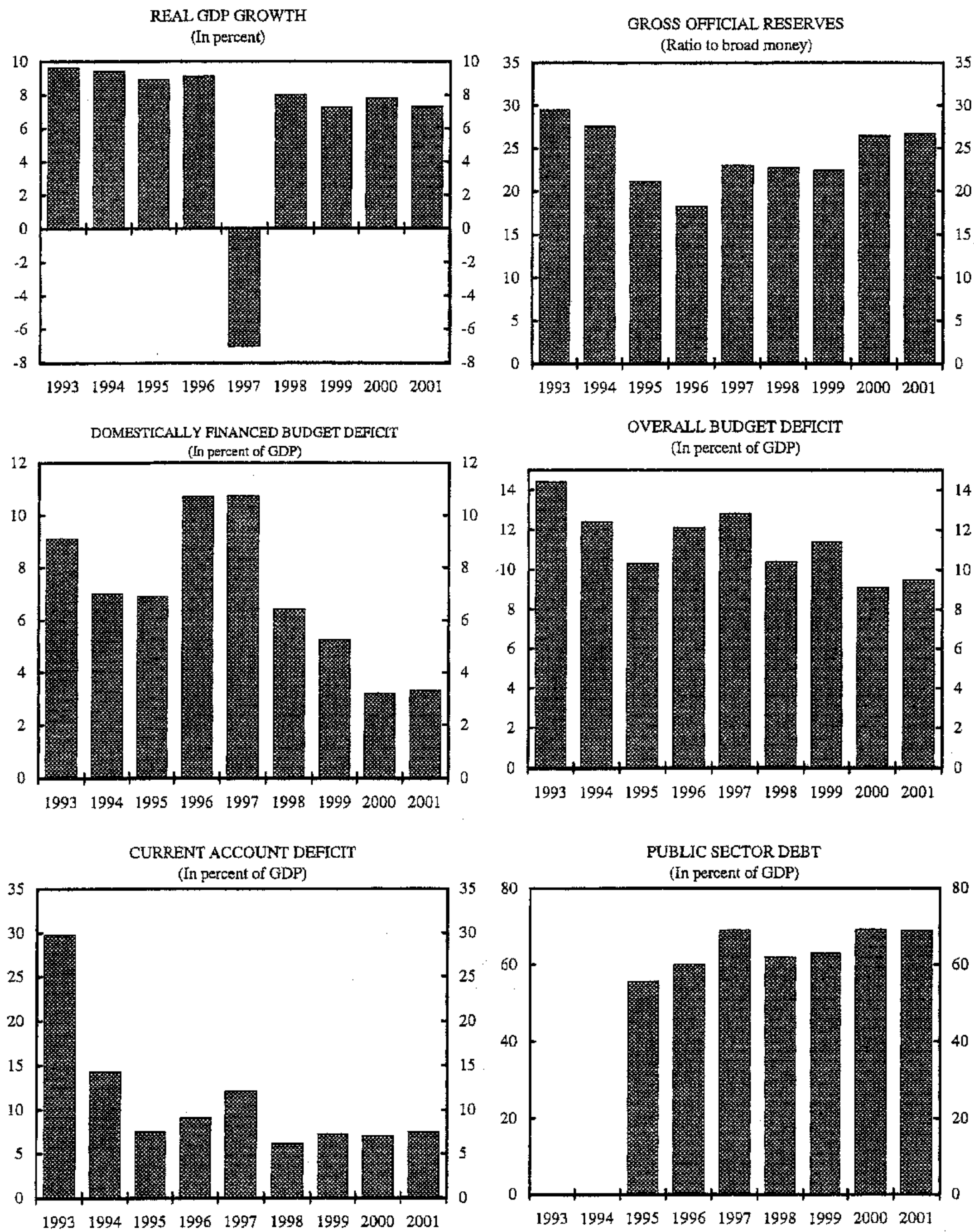
Sources: Bank of Albania, Ministry of Finance, INSTAT, and Fund staff estimates.

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

2/ The decline in September 1995 reflects payments associated with rescheduling of Albania's commercial bank debt.

3/ The real rate is the nominal rate minus annualized filtered inflation.

Figure 2. Albania: Economic Developments and Prospects, 1993-2001 1/



Source: Albanian authorities and Fund staff estimates.

1/ Staff projections for 2001.

9. **During 2000 and into 2001, strong economic activity has been fuelled by vigorous domestic demand.** Based on the limited data available, GDP growth is estimated at 7¾ percent in 2000, supported by an increase of more than 15 percent in construction and transport activities, while output in the agricultural and industrial sectors grew by about 5 percent. In the latter sector, performance was hampered by end-2000 electricity shortages and privatization-related disruptions of production in the government-owned mining sector, which also adversely affected exports. Both investment and consumption have been buttressed by steady increases in private remittances by Albanians working abroad and by greater confidence in the economy.

10. **Electricity shortages caused disruptions in economic activity during the winter of 2000-01 and continue to threaten growth prospects; however, much-needed reforms in the electricity sector have been initiated.** Years of neglect, in conjunction with unfavorable hydrological conditions, led to disruptive power shortages during the last quarter of 2000 and the first months of 2001. In response, the authorities have embarked on an extensive reform of the electricity sector, endorsed by the World Bank and other donors in December 2000. In line with the targets, tariff collection has improved and power losses have been reduced. A new schedule of flat tariffs has been approved and illegal connections have been made a criminal act. Based on these positive achievements, World Bank and other donor-financed projects in the transmission and distribution sectors have resumed.

11. **The external position strengthened further during 2000, reflected in higher official exchange reserves.** The worsening of the trade balance in 2000, by about 3½ percent of GDP, was offset by strong inflows of remittances and a strengthening of measured tourism services, leaving the current account deficit roughly unchanged at 7 percent of GDP (Table 2).[3] Recorded imports increased by 33 percent in euro terms (14 percent in dollar terms) owing to vigorous demand, sizable electricity imports, and improved registration. Exports were affected principally by disruptions in the mining sector, and increased by only 8 percent in euro terms (and fell by 7 percent in dollar terms). Large privatization proceeds and occasional foreign exchange interventions contributed to a sharp rise in official reserves, to \$648 million—4.4 months of imports—by end-March 2001, well above program targets (Table 3). The exchange rate, which appreciated against the euro during most of 2000, has been stable in recent months, despite a significant decrease in the interest differential during 2000. Early data from 2001 show strong growth in both exports and imports, and continued large capital inflows (mainly privatization-related).

[3] Recent revisions to improve the compilation of balance of payments data (see Appendix III), in addition to the effects of the Kosovo crisis in 1999, hamper a reliable analysis of the year-to-year changes in the current account position.

12. **Inflation has edged up since mid-2000, mainly on account of rising energy and housing costs, but it is within the authorities' 2-4 percent target range.** Owing to cautious monetary policy and an appreciation of the lek relative to the euro, inflation remained subdued, averaging about zero for 2000 as a whole. Year-on-year inflation turned positive in September 2000, accelerating to 4.2 percent in December—reflecting an unusually large seasonal hike in the prices of fruits and vegetables—and falling to 2.5 percent in May 2001.

13. **Motivated by below-target inflation, monetary policy has eased considerably since the beginning of 2000.** In the period to April 2001, T-bill rates fell by 6-7 percentage points, to 7½ percent for 3-month bills and 10 percent for 12-month bills, while bank deposit rates declined by 1-2 percentage points, to the range of 6½-9 percent. Accordingly, the spread between T-bill and deposit rates has narrowed considerably, to more reasonable levels. Interest rate reductions in the period to July 2000 were instigated by lower floors on deposit interest rates—the main instrument of monetary policy until the Bank of Albania (BoA) switched to indirect instruments in mid-2000—and through repo operations thereafter. After initial fluctuations, weekly repo rates have stabilized at about 6½ percent since February. The decline in market interest rates has been helped by higher-than-projected privatization receipts, which have limited the need to issue T-bills and, thus, contributed to an increase in commercial banks' excess reserves. The ongoing broadening of the market has also contributed, by promoting competition among investors and by reducing the market share of the Savings Bank. Annual broad money growth has been fairly stable, at around 12 percent, while private sector credit has continued to grow rapidly, albeit from a small base (Table 4). Most credit is provided to small and medium-sized enterprises, for both trade and investment, and denominated in dollars.

14. **Fiscal policy remains broadly on track, mainly due to a strong tax revenue performance and lower-than-budgeted expenditures.** The overall deficit (excluding grants) declined by about 2¼ percentage points (1¼ percentage points excluding Kosovo-related expenditures), to around 9 percent of GDP in 2000 (Table 5). This outcome was below both the budget projection of 9½ percent of GDP and the staff's earlier estimate of 9¾ percent of GDP, reflecting lower-than-expected foreign-financed capital expenditures. End-December indicative targets for the domestically financed deficit—at 3¼ percent of GDP—and for total tax revenues were met (see Table 3). Fiscal performance so far in 2001 has been in line with the budget and the end-March targets for tax revenue collection and the domestically financed deficit were met.

15. **Improved revenue collection—which led to an increase of 29 percent in tax revenues in 2000—has largely been the result of the implementation of measures agreed under the program.** Corruption and smuggling have been reduced significantly through the strengthening of the Customs Department's investigative and internal audit functions, the imposition of disciplinary measures, and a new merit-based remuneration system. Personal income tax and VAT collection have benefited from efforts to raise the number of registered taxpayers. These measures have more than offset the revenue loss that resulted from reductions in customs tariffs, the electricity crisis, and nonpayment of taxes by the state-

owned electricity and oil companies. Underperformance in certain nontax revenue categories was compensated by reduced current expenditures by the respective ministries.

16. **Expenditures in 2000 did not reach the budgeted level as recorded foreign-financed capital expenditure fell considerably short of the projected amount.** Implementation problems continued to plague foreign-financed investment projects; spending on such projects was the equivalent of 0.7 percentage points of GDP less than planned—although measurement uncertainties prevent a reliable assessment—while other investment expenditure was higher than budgeted (by 0.3 percentage points of GDP). Spending on health and education increased in real terms by around 2 percent, but decreased slightly relative to GDP and fell ½ percentage point below the budgeted total, mainly due to poor implementation capacity (see Table 5).

17. **Despite the fiscal efforts of the past three years, public debt has been rising, although it remains in line with international averages for comparable poor developing countries.** Total debt has risen from around 62 percent of GDP in 1998 to about 69 percent in 2000, reflecting mainly a rise in domestic debt as a result of bank recapitalization. Based on the staff's projected medium-term fiscal path, the debt dynamics are expected to improve owing to rapid growth (see Box 1). However, a combination of much lower growth, higher interest rates, and a large exchange rate depreciation, would jeopardize debt sustainability, thus requiring remedial measures. Albania's public debt is below the average for selected non-HIPC PRGF-eligible developing countries (88 percent of GDP) and for the Euro Area (73 percent of GDP), but it is somewhat higher than for transition economies (50 percent of GDP).[4] Moreover, public debt accumulation has helped finance infrastructure investment and needed social programs. It has also helped avoid deflationary pressures that would have resulted from the absence of significant alternative investment options for deposit-taking institutions. External debt has been more or less stable at around 28 percent of GDP and is quite low by international standards. Its net present value of about 16 percent of GDP lies significantly below the average of 40 percent for the non-HIPC PRGF-eligible countries.[5]

18. **Significant progress has been made in privatization of state-owned enterprises, including the Savings Bank (Table 6).** The tender for privatization of the Savings Bank was announced on June 29, in spite of coordination problems during the past few months involving the international consultants. The Bank was fully recapitalized in December 2000, and its fiscal functions in the 9 largest cities and 70 pension offices are being divested to other financial institutions in order to reduce the Bank's dominance. In the

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[4] The figures available for international comparison are limited and subject to a large degree of uncertainty given the unavailability of reliable domestic debt data for many countries.

[5] See "The Challenge of Maintaining Long-Term External Debt Sustainability", SM/01/94, March 2001. Note that the paper does not report the average for non-HIPC PRGF-eligible countries, which is calculated from the raw data provided by the authors.

Box 1. Albania: Medium-Term Debt Sustainability

Albania's public debt has risen in recent years but remains below that of similar developing countries. Albania's overall public debt rose from 62 percent in 1998 to about 69 percent of GDP in 2000, but remains moderate compared with about 88 percent of GDP for 12 non-HIPC PRGF-eligible countries (for which domestic debt data were available in *GFS* and *IFS*). Albania's net present value (NPV) of public debt, while lower at 57 percent of GDP in 2000, is closer to the average of 68 percent for the same non-HIPC PRGF-eligible countries. Within this total domestic debt remains relatively high at 41 percent of GDP (compared with the average of about 28 percent of GDP for the same non-HIPC PRGF-eligible countries). This Box provides an overview of the analysis in Chapter 1 of the Selected Issues Papers, which examines Albania's projected debt dynamics for the period 2001-10 under alternative assumptions. The results suggest that Albania's public debt dynamics are unlikely to be a cause for concern over the medium term in light of the strong growth prospects.

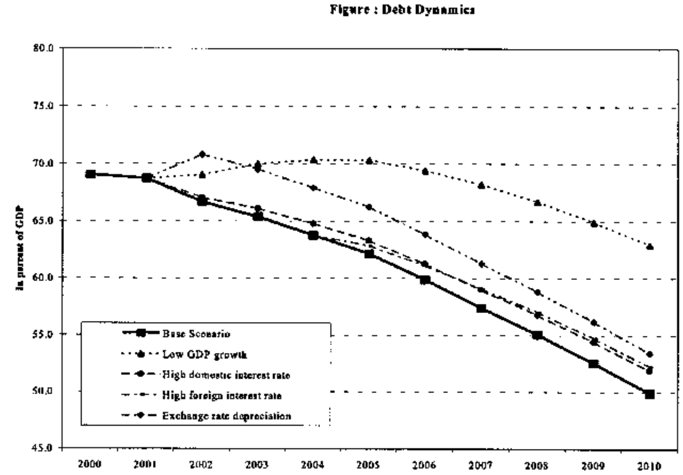
The gradual fiscal consolidation envisaged over the medium-term (2001-10) will reverse the upward trend in the public debt-to-GDP ratio (see Table). Public debt is projected to decrease to 50 percent of GDP by 2010 (40 percent of GDP in NPV terms). This assumes that real GDP will grow at 6 percent per annum over the medium term; inflation averages 3 percent per year; nominal domestic interest rates average about 9 percent (equal to medium-term nominal GDP growth); the dollar exchange rate remains unchanged; foreign financing will be restricted largely to concessional loans until 2004 and becomes less concessional thereafter, with the interest rate rising from around 1.1 percent to 4 percent by 2010; foreign grants decline to zero by 2010; and privatization receipts are phased out by 2004. It also assumes that the necessary structural reforms continue to alleviate pressures on the budget through broadening the tax base, improving tax and customs administration, strengthening expenditure management, and restructuring the social security system.

Table: Medium-Term Debt Sustainability

	2000	2001	2003	2005	2007	2010
	(In percent of GDP)					
Overall balance	-9.1	-9.5	-8.0	-6.1	-4.0	-1.9
Overall balance (excl. privatization and grants)	-5.1	-6.0	-5.2	-4.2	-3.1	-1.9
Domestic borrowing	3.2	3.3	2.4	1.9	1.3	0.7
Foreign borrowing	1.9	2.7	2.8	2.3	1.8	1.2
Public debt	69.1	68.8	65.4	62.2	57.4	49.9
Domestic debt	41.5	40.9	37.8	34.9	31.5	26.5
External debt (incl. pulicly guaranteed)	27.6	27.8	27.6	27.3	25.9	23.4
Net present value of public debt	57.1	56.6	52.9	49.5	45.8	40.6
Net present value of external debt	15.6	15.7	15.1	14.6	14.2	14.1
	(In percent)					
Assumptions						
GDP growth	7.8	7.3	7.0	6.5	6.5	6.0
Domestic interest rate	9.2	9.0	9.0	9.0	9.0	9.0
Foreign interest rate	1.1	1.1	1.1	1.6	2.6	4.0
Exchange rate	144	145	145	145	145	145

Public debt retains its medium-term declining trend under less favorable conditions (see Figure). Four alternative scenarios are examined. Scenario 1: domestic interest rates rise to 11 percent. Scenario 2: foreign interest rates rise to 6.7 percent (from 2005 onwards). Scenario 3: the lek depreciates by 15 percent against the U.S. dollar. Scenario 4: nominal GDP growth falls to 6 percent, below the projected nominal interest rate of 9 percent. The debt-to-GDP ratio still falls under Scenarios 1 and 2, albeit at a slower speed than in the base scenario; it rises temporarily in 2002 before declining rapidly under Scenario 3; and it rises until 2004 and then begins to decline slowly under Scenario 4. The results highlight the importance of strong growth and fiscal adjustment in ensuring medium-term debt sustainability.

Figure : Debt Dynamics



telecommunications sector, a second mobile phone license was successfully sold to an Anglo-Greek company in January 2001, following the sale of the mobile telecommunications company (AMC) in July 2000; and the Law specifying the privatization formula for the fixed-lines telecommunications company was approved by parliament in May 2001, after some delay. Privatization of the mining sector has largely been completed, with the recent approval of concession contracts for a large number of copper and chrome mines. Progress in privatizing the various parts of the state oil company has been rather slow, but these entities, as well as the state-owned insurance company, are expected to be privatized in 2002. A new joint venture agreement with foreign companies for oil exploration envisages investments of $200 million over the next four years.

19. **Other structural reforms have also continued, albeit with some delays.** The implementation of the Law on Executive Offices has strengthened the effectiveness of bailiffs' offices, and a registry for collateral property started operating in January 2001. On the other hand, delays have occurred in the submission of the revised Bankruptcy Law and the establishment of a mediation center to help settle conflicts between private and public sector entities. The authorities have signed a contract with an Austrian company to help establish a credit information bureau by end-2001, postponed from the original end-2000 target. In the agricultural sector, the end-December 2000 target for land registration was met.

20. **All end-March 2001 quantitative performance criteria and targets and the end-June 2001 structural performance criterion relating to the Savings Bank have been observed (see Box 2).**

III. Report on the Discussions

21. **Discussions focused on the preparation of the GPRS; performance under the program; the economic strategy for 2001; reform in the electricity sector and the need for additional subsidies in 2001; and the privatization of the Savings Bank.**

A. The Growth and Poverty Reduction Strategy

22. **The staff welcomed the authorities' commitment to preparing the GPRS by mid-2001, but emphasized that the tight deadline should not jeopardize its quality.** The participatory process for developing the strategy includes sectoral civil society advisory groups, local government, and the private sector. Identified key priorities for poverty reduction are health, education, rural development, and labor and social affairs. In order to translate the poverty-reducing measures identified in the GPRS into an effective expenditure policy, the MTEF for 2001-2003 is being updated to include 2004, in coordination with the GPRS exercise. The authorities indicated that the GPRS would include well-defined and prioritized measures with clear links to poverty reduction, and intermediate poverty indicators to monitor progress. They noted that they intended to strengthen policy monitoring and evaluation through a five-year household survey program backed by the World Bank and other donors. Nevertheless, owing to data limitations, the analysis contained in the GPRS would be preliminary in some respects, requiring improvements over time.

Box 2. Albania—Structural Conditionality

Coverage of Structural Conditionality under the Current Program

The current PRGF arrangement with the Fund ends on July 31 and no new conditionality is being set. A possible successor arrangement will be negotiated in the fourth quarter of 2001, in coordination with the World Bank—which is planning a PRSC—and other donors, and using the authorities' GPRS as a basis. The authorities plan to undertake a number of measures—set out in Table 9—in the period following the end of the current arrangement, which are not covered by any formal conditionality.

Status of Structural Conditionality from Earlier Programs

The status of structural performance criteria and benchmarks for the current program are presented in Table 6. The priority measure—the end-June performance criterion on announcing the tender for the privatization of the Savings Bank—was met on June 29, 2001. Many of the structural benchmarks have been met, albeit with significant delays in some cases. Also, the timetable for implementation of several benchmarks has been extended to later this year, although some of these measures have limited direct macroeconomic relevance.

Structural Areas Covered by World Bank Lending and Conditionality

The World Bank's relations with Albania are described in Appendix II. The Country Assistance Strategy (CAS) for Albania, which covered the period 1998-2001, focused on policy reforms in three priority areas: (i) governance and institution building; (ii) private sector development; and (iii) human development and poverty alleviation. The Financial Sector Institutional Building Technical Assistance has supported the authorities' efforts to reform the financial sector and privatize the Savings Bank. The Bank has endorsed the authorities' electricity reform strategy commenced in December 2000 and is resuming its power transmission and distribution project.

B. The Macroeconomic Framework

23. **With growth projected to remain strong, the mission noted that the recent rise in inflation warranted careful monitoring.** The authorities and the mission agreed that, at this juncture, no adjustment to the macroeconomic framework established in late 2000 was needed. Growth is expected to continue at around 7 percent, reflecting the positive effects of investments in machinery and water management systems on agricultural productivity, a more dynamic industrial sector in the aftermath of privatization, and a developing tourism sector. While the recent pickup in inflation can be regarded as a supply shock—largely driven by higher world energy prices and domestic food prices—the mission argued for prudence so as to prevent an entrenched inflationary process, given vigorous demand and a

history of high inflation in 1990s. The mission also stressed that growth projections were predicated on effective measures to address electricity shortages, building on recent progress in electricity reform.

C. Fiscal Policy

24. **The authorities and the mission agreed that, apart from the need to increase subsidies for electricity imports above the budgeted level, the 2001 budget remained appropriate.** Higher subsidies would widen the overall fiscal deficit to 9.5 percent of GDP from 9.2 percent of GDP in the budget. Moreover, should donor assistance be delayed (see the next paragraph) the domestically financed deficit target would increase to 3.3 percent of GDP.[6] Gross public debt is projected to remain at about 69 percent of GDP in 2001.

25. **The mission agreed to additional subsidies of up to Lek 2.5 billion (0.4 percent of GDP) in 2001 for electricity imports, in order to minimize macroeconomic disruptions and in view of the authorities' firm commitment to undertake fundamental reforms of the electricity sector, which should ensure a reduction in subsidized electricity imports in 2002 (see paragraph 34 below).** Despite the authorities' efforts to contain demand for electricity, imports in 2001—consistent with 7 percent GDP growth and the efficient use of existing domestic generation capacity—will likely be higher than in 2000. Accordingly, budgeted import subsidies of Lek 3 billion for 2001 are expected to be exhausted by mid-2001. The program was amended to include higher subsidies in light of the limited room for near-term budgetary savings in the face of essential poverty-reduction efforts, and since they would prevent a negative supply shock. The mission and the authorities agreed that to minimize the future budgetary impact, the extra outlays should be financed through foreign grants or highly concessional foreign borrowing. In discussions with donors subsequent to the mission, it has become apparent that, while additional assistance will be available to finance electricity imports, it will likely not be disbursed until 2002.[7] It was agreed that, to the extent that donor assistance is committed and certain, but it will be forthcoming only in early 2002, domestic borrowing in 2001 could be higher than targeted.

26. **The mission cautioned against possible election-driven spending increases.** The domestic debt level and concerns about rising inflation underscored the need for fiscal prudence. The authorities noted that they had no intention of boosting current expenditure ahead of the upcoming elections. Initially, they had suggested using higher-than-expected

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[6] The projected domestic deficit in 2001 is higher than in the 2001 budget by 0.2 percent of GDP because the World Bank Structural Adjustment Credit, included in the budget, was disbursed in 2000.

[7] The World Bank will provide concessional financing in the form of general budgetary support, conditional on progress in financial sector reform. Other donors are expected to provide grants.

privatization proceeds for additional infrastructure investment. However, they concurred with the mission's position that, under the program, such receipts were intended to be used to reduce domestic borrowing and that any additional investment should be carried out within the budget. Concerning their proposed additional increase of rural pensions in July 2001, the authorities intend to take offsetting measures within the scheme, in order to raise overall contributions, accompanied by efforts to improve collection.

27. **On the revenue side, the authorities indicated that, in spite of VAT and excise collection problems in the tax department, collection targets remained achievable.** Some problems have resulted from the recent energy crisis and a chain of payments arrears among public enterprises involving Albpetrol and KESH (the electricity company). Evasion of both domestic taxes and customs duties also remains widespread. The mission urged the authorities to address any downside risks to meeting the targets for 2001 forcefully and expeditiously, and to continue with their efforts to improve tax and customs administration:

- Regarding customs, the mission emphasized the need to proceed with taking corrective measures based on the Internal Audit Unit's regular reports. The authorities plan to address the staffing and office space problems that currently constrain the newly installed regional customs directors. Over the medium term, the authorities are lowering customs tariffs in line with their commitments to the WTO.

- On domestic taxes, the authorities agreed that the priorities are improved VAT collection and tax auditing; providing adequate office space to the large taxpayer unit; and strengthening collection incentives by revising the Tax Department's remuneration and bonus schemes—following the example in the Customs Department last year, with beneficial effects on collection efforts and corruption. The mission reiterated the need for further efforts to widen the tax base, in particular to cover the agricultural sector. The authorities noted that they were considering alternative options, as well as plans to introduce some decentralization of tax collection. Regarding the latter, and fiscal decentralization in general, the mission advised a cautious approach and stressed the importance of identifying appropriate controls and safeguards. The mission underscored the urgency of addressing the accumulation of public enterprise arrears, in view of both the adverse effects on tax collection and its potential to disrupt sectoral reform. It did not object to a proposal for replacing ad valorem excises on various highly taxed items by specific duties, while ensuring revenue neutrality.

28. **The mission welcomed the authorities' continued efforts to improve the application of the tax law—in particular pertaining to VAT reimbursement and profit tax assessment.** Problems in this area have in the past created significant obstacles to foreign investment. The authorities pointed out that much progress had already been made, and that they had entered into a dialogue with the business community to help improve relations. They added that some of the recent problems had resulted from temporary administrative difficulties in applying changes in tax legislation. The mission also discussed the law on the functioning of the planned financial police and recommended that, before its adoption, the

law be assessed further by the Fund's Fiscal Affairs Department (FAD). Since the mission, FAD has assessed the law and has proposed further modifications to avoid a duplication of efforts with the Tax Department.

29. **The mission emphasized that ensuring fiscal sustainability required setting clear budgetary priorities, given that the scope for reliance on privatization proceeds and concessional external financing was likely to decline over the medium term.** Continued improvements in revenue performance and prioritization of expenditures would be crucial for reconciling reduced reliance on temporary sources of financing with alleviating poverty and improving infrastructure. The mission also discussed measures to introduce appropriate parametric changes to the pension fund by the time of the 2002 budget to strengthen its sustainability (see Box 3). Medium-term fiscal prospects will be revisited at the time of the next staff visit, planned for July 2001, following the completion of the MTEF.

D. Monetary and Exchange Rate Policy

30. **Following the warranted interest rate declines of the past year, it was agreed that the BoA should now adopt a neutral monetary policy stance.** In the BoA's view, headline inflation, while higher than before, would decline as core inflation was still under control. Thus, inflation would likely remain within the central bank's 2-4 percent target range. The mission concurred with this assessment, but urged the BoA to take swift action if inflationary pressures persisted. The agreed policy stance was also corroborated by an ongoing shift within broad money to foreign currency deposits and the commercial banks' contention that lek deposit rates had now reached a floor imposed by the expected return on dollar deposits. While maintaining a flexible exchange rate, the BoA will continue its policy of limited foreign exchange interventions to help smooth excessive fluctuations.

31. **The authorities clarified their intentions concerning a further strengthening of the monetary policy framework.** The switch to indirect policy instruments in mid-2000—with market interest rates now serving as intermediate policy targets—has worked well, as evidenced by the successful lowering of interest rates and the development of an interbank market. However, the new framework has not yet been used to tighten monetary conditions, and a better understanding of its transmission channels is required. The authorities explained that they were still refining the new instruments, in particular the setup of the weekly repo auctions (see Box 4). For the medium term, the authorities expressed interest in adopting formal inflation targeting and were awaiting technical assistance from the Fund's Monetary and Exchange Affairs Department.

Box 3. Albania: Pension Reform

Pensions are an important element of social protection in Albania. While over 15 percent of Albania's citizens currently receive public pensions, private savings for retirement is limited. Traditional safety nets exist, in which the elderly are taken care of by their children, but the effectiveness and scope of these safety nets are decreasing owing to social changes and internal and external migration. As the PAYG-based pension fund relies at present on supplementary transfers from the budget (about 1 percent of GDP), its financial performance is of vital importance for the government's ability to increase expenditures in other priority areas. Moreover, the importance of the pension system is expected to rise further, as the share of beneficiaries in the population increases.

With population aging, public sector employment declining, and the gap between contributions and benefits widening, the current pay-as-you-go pension system is unsustainable over the medium term. A recent study by the staff evaluates the financial viability and reform options of the Albanian pension fund.[1/] It uses an existing actuarial model that includes Albania-specific assumptions about key demographic and macroeconomic parameters. The study distinguishes between reform options for the urban and rural pension schemes, which differ considerably with regard to both the contribution rates and the benefits. In the urban scheme, because of the gradually diminishing size of the state sector, regular contributions for civil servants will decline. However, given widespread evasion, private sector contributions may not increase sufficiently to compensate. In the rural scheme, the gap between benefits and contributions is simply too high to allow the system to be viable.

To ensure financial sustainability, significant reforms are required. In the urban scheme, in order to reduce transfers from the budget and increase the participation rate of the private sector, a combination of parametric reforms may combine a rise in the contribution ceiling (currently three times the minimum wage) with a reduction in contribution rates and an increase in the retirement age. To provide greater incentives for private sector participation, private pension funds could be created to target primarily the higher income segments of the population and to offer supplementary old-age pensions; the possibility of participating in such pension funds could be made conditional on simultaneous participation in the state pension fund. In the rural scheme, the pension system also plays a social assistance role, which will need to be taken into account in reforming the system. If the planned merger of the rural scheme with the urban self-employed scheme—which has higher contribution rates—does not succeed, the rural scheme may need to be replaced by a partially funded system and/or a targeted social assistance scheme. Extensive administrative reforms will also be required in order to achieve a marked improvement in the participation of the private sector and to ensure financial viability. The authorities are aware of the concern about the long-term viability of the public pension system and its budgetary implications, and are embarking on a reform path with the assistance of the World Bank in 2002. Given the uncertainties involved, the reform program should take place gradually and be subject to periodic corrective adjustments.

[1/] Volker Treichel, "Financial Sustainability and Reform Options of the Albanian Pension Fund," WP/01/47, IMF, April 2001.

Box 4. Albania: The Transition to Indirect Instruments of Monetary Policy

Since mid-2000, the Bank of Albania (BoA) has switched from direct to indirect instruments for the conduct of monetary policy. In November 1999, bank credit ceilings were abolished, followed by the phased elimination of minimum deposit rates during the first nine months of 2000. The latter change was in part motivated by an increasing loss of effectiveness of these floors in affecting market rates. Since July 2000, weekly multiple-price—and more recently fix-price—repo auctions have become the main policy instrument. All 13 commercial banks are counterparties for these operations. Under the new system interest rates serve as an intermediate target in achieving the objective of maintaining inflation within a 2-4 percent target range.

In order to strengthen its control over bank liquidity and interest rates, the BoA has limited the supply of treasury bills to the banking system, thus increasing its own portfolio. The lack of alternative investment options has forced the commercial banks to rely more extensively on investments in the T-bill-based repos offered by the BoA. This development has also been supported by the modest domestic financing needs of the government during this period, owing to substantial privatization receipts. Accordingly, the repo auctions so far have mostly served to withdraw liquidity from the banking system.

Other policy instruments used by the BoA include a 10 percent reserve requirement on both domestic and foreign currency deposits. Occasional interventions in the foreign exchange market are aimed at reducing market volatility. Moreover, since March 2001, the repo instrument has been supplemented by three standing facilities, in order to establish upper and lower bounds for market interest rates. Of these new instruments, which include a Lombard facility and overnight credit and deposit facilities, so far, only the latter has been used.

32. **Broad money is expected to continue to expand modestly, while domestic credit growth will decline to more sustainable levels.** With broad money projected to grow at about 12 percent in 2001, in line with nominal GDP, the decline in the velocity of circulation is projected to come to an end. Consistent with projected domestic public borrowing of about 3 percent of GDP in 2001 and an ongoing expansion of private sector credit by about 34 percent, domestic credit is projected to grow by about 10 percent in 2001.

33. **The mission agreed with the authorities' assessment that, in part reflecting banks' limited range of services, the banking system did not appear to be facing any major risks.** Credit risk is limited, as banks still invest mostly in government paper and private sector credit remains small (8½ percent of total bank assets). Furthermore, capital adequacy ratios are generally well above minimum international standards and the share of bad loans has declined from 8.3 percent at end-1999 to 6.4 percent at end-2000. Supervision is being strengthened further through training programs and the preparation of manuals for inspections. Even though neither the upcoming elections nor the privatization of the Savings Bank is expected to disrupt confidence in the financial system, the mission urged additional vigilance, also in view of more aggressive practices by smaller banks—including by the expansion of their operations outside Tirana.

34. **The IMF Treasurer's Department completed the Stage One Safeguards Assessment of the BoA in March 2001.** The assessment indicates that the BoA has taken significant steps in bringing its accounting and financial reporting mechanisms in line with international standards. Nevertheless, significant weaknesses remain in the Bank's internal auditing, financial reporting, and internal control system, which need to be addressed. It was judged that a Stage Two assessment would not be needed at this juncture, provided the BoA implements the actions recommended in Stage One. The staff will monitor closely progress in improving the BoA's external audit mechanisms and internal controls; adopting International Accounting Standards by end-2001; commissioning an independent review of the BoA's internal audit function for submission by end-2001; and establishing an audit committee of the Supervisory Board in line with international best practice.

E. Structural Reform

35. **The Savings Bank's successful and timely privatization will require a concerted effort in the period ahead.** The authorities reiterated their strong commitment to meeting the end-June performance criterion to announce the tender for privatization—which they subsequently completed on June 29. In this context, the mission urged the Minister of Finance, as the owner of the bank, to take a firm leadership role in ensuring that all parties involved are knowledgeable about the specific steps in the privatization process. In order to avoid disruptions in the provision of basic banking services in remote rural areas, where the Savings Bank is currently the sole provider, the authorities intend to oblige the future owner to give advance notice of any plans to close a branch so that, if necessary, alternative arrangements can be made. In this connection, they have instructed Albapost to apply for a banking license to enable it to take deposits. The mission agreed with this strategy, but stressed that Albapost's application should be subject to the regular thorough scrutiny. To help reduce the Savings Bank's dominance, state-owned enterprises will be encouraged to use other banks.

36. **High and sustained growth over the medium term depends crucially on an aggressive reform of the ailing electricity sector.** The mission stressed the urgency of putting in place a clear plan to phase out all subsidies to KESH as early as possible, and maintain progress in reducing illegal electricity usage and nonpayment. This could be achieved through an increase in the average tariff, and better tariff collection, as well as other measures to reduce excessive demand for electricity for heating purposes—including the adoption of a two-tier tariff structure by October—while still protecting the most vulnerable. The authorities agreed and explained that the implementation of their comprehensive energy strategy would help reduce electricity shortages through a combination of lower (technical and non-technical) electricity losses, the promotion of energy conservation, and the use of liquefied petroleum gas (LPG) for heating purposes. They are also keen to enhance electricity generation through rehabilitating existing power stations and building new facilities over the longer term, with final decisions to be made within the coming year. The authorities have, on the advice of the World Bank, initiated an independent review of the planned *Bushati* hydropower project—with a cost of about 4 percent of GDP—prior to proceeding with its

implementation. They agreed to move ahead with the project only if the review does not identify major problems.

37. **The mission commended the authorities for progress in implementing the program of enterprise privatization and sectoral liberalization.** It encouraged them to proceed swiftly with the remaining privatization projects and, in particular, to announce the tender of Albtelekom before the end of this year. Regarding INSIG, the state insurance company, the mission urged the authorities to limit the firm's strategic investment activity to an absolute minimum while it is being prepared for privatization.

38. **The mission acknowledged major improvements in the legal and institutional environment for private sector activity, but argued that further efforts were needed.** A new Bankruptcy Law is expected to be approved by parliament in September 2001 and become effective by November, following a training program for judges. The mission expressed concern over delays in establishing a mediation center, and urged the authorities to proceed with its establishment by end-2001. The authorities agreed to speed up progress in implementing the Money Laundering Law. Regarding foreign direct investment, the authorities agreed to approach the Foreign Investment Advisory Service (FIAS) of the IFC/World Bank to conduct a study of administrative barriers, identifying measures and specific annual targets to reduce bureaucratic hurdles for investors. In addition, the authorities intend to establish an investment promotion agency along the lines suggested in the latest FIAS report with the assistance of Multilateral Investment Guarantee Agency (MIGA) and UNCTAD.

39. **The mission urged the authorities to continue enhancing the quality and coverage of economic data**. Specifically, it expressed great concern about the lack of improvement in the timeliness, coverage, and accuracy of foreign-financed capital expenditures, which continues to impede a reliable analysis of the fiscal position. The preparation of the PPI is in its final stages and progress has been made in revising the CPI weights. The mission encouraged the authorities to speed up the process—for which further technical assistance from the IMF Statistics Department has been requested—to improve further national accounts statistics, in particular by addressing problems relating to coverage of private sector activity and calculating price deflators. The mission also encouraged the authorities to continue with efforts to enhance monitoring of external public and publicly guaranteed debt. It welcomed the recent introduction of a foreign assistance database, but noted that further progress was needed to improve the timeliness and quality of recording external assistance.

F. External Sector Outlook and Policies

40. **Albania's external position remains sustainable.** The current account deficit is expected to widen slightly to 7½ percent of GDP in 2001 and 8 percent in 2002, before declining gradually to around 6½ percent by 2005. This is paralleled by an increase in the trade deficit to 22 percent of GDP in 2001 and 22¼ percent in 2002, with continued steady growth of imports reflecting robust domestic demand. A gradual improvement is projected

thereafter, to 20 percent of GDP by 2005, as exports rise with the resumption of production in the newly privatized copper and chromium sectors, and other investment activity. Private remittances are expected to continue to grow steadily; prospects for continued donor support remain favorable; and foreign direct investment will likely continue to be strong, following the conclusion of the privatization agenda in the next few years. The financing gap will widen slightly to \$23 million in 2003 (reflecting the decline in privatization receipts), but will narrow to \$9 million by 2005.

41. **The real exchange rate appreciation does not appear to present a competitiveness problem at this stage, but might have some adverse impact on the development of export capacity over the medium term.** The real appreciation since the mid-1990s could be an equilibrium response to strong external inflows, although past tight monetary policies may also have contributed. The impact on exports, however, appears limited: a large component of exports (reprocessing exports) are not particularly sensitive to the exchange rate, and specific factors (in particular, the Kosovo crisis, and electricity and privatization-related disruptions) have been the primary determinant of export performance in other sectors. More generally, it appears that at present external competitiveness is constrained more by non-price, institutional factors. Nevertheless, the situation requires continuous monitoring given that, over the medium term, the real exchange rate could deter investment in export capacity and external inflows will likely decline.

42. **Albania's external vulnerability continues to be limited (Table 7).** Official reserves are projected to remain at 4-4½ months of imports (around 25 percent of broad money and 70 percent of reserve money), and external debt at around 27-28 percent of GDP through 2005—with no original maturity short-term debt. Debt service in 2001 is projected at 4½ percent of exports and is expected to remain in the comfortable range of 6-6¼ percent of exports through 2005. As a result, Albania should have no difficulty in continuing to meet its obligations to the Fund (Table 8) and other creditors.

43. **The authorities are moving ahead with regularizing relations with external creditors.** In 2000, Paris Club rescheduling agreements were signed with Austria, France, Italy, and the Netherlands, and repayment was made in full to Denmark. The rescheduling agreement with Japan is awaiting ratification by Albania's parliament, and the negotiations with Germany and Russia are moving ahead. With regard to negotiations with non-Paris Club creditors, arrears estimates have been reconciled with a number of countries (including Hungary, Romania and the Czech Republic) and a rescheduling agreement with Turkey was signed in May 2001. However, progress in negotiations with other non-Paris Club creditors has been more limited. The mission encouraged the authorities to pursue these negotiations in a timely manner. The authorities' intend to clear arrears representing debit balances under inoperative bilateral payments agreements—which constitute exchange restrictions subject to Article XIV—as soon as possible. Staff noted the absence of a clear timetable for the clearance of these arrears and removal of the underlying exchange restrictions, and urged the authorities to expedite the process.

44. **Albania maintains an open trade regime, rated 1 out of 10 on the Fund's trade restrictiveness index.** Effective January 1, 2001, the minimum and maximum tariff rates were reduced, respectively, from 5 percent to 2 percent, and from 18 percent to 15 percent, and the average tariff rate in 2001 is expected to fall to 8 percent from 12 percent in 2000. In the context of Albania's accession to the WTO in September 2000, the authorities have agreed on a plan of further reforms over the next ten years. Albania is working to conclude a free trade agreement with FYR Macedonia and is considering arrangements with other countries in the region. In a report issued in early June 2001, the European Commission recommended a move toward opening negotiations with Albania on a Stabilization and Association Agreement (SAA) with the EU, which should help maintain the reform momentum and eventually open the road for Albania's full integration into European structures.

G. A Possible Successor Arrangement

45. **Given the timing of the elections, the GPRS, and the 2002 budget, the staff and the authorities considered that an appropriate time to complete negotiations for a possible successor arrangement would be the fall of 2001.** A July staff visit will review progress in preparing the GPRS, carry out preliminary discussions on the 2002 budget, and discuss the broad framework for a possible successor arrangement. The strategy for the new program will be based on the analysis contained in the authorities' GPRS and will be developed in close coordination with the World Bank—which is planning a PRSC for Albania—in order to ensure an appropriate division of labor, targeted Fund conditionality, and consistency with the authorities' poverty reduction and growth objectives. The mission and the authorities reached understandings on a set of quantitative targets (see Table 3) and structural measures (Table 9) for the remainder of 2001. These indicative goals aim to promote uninterrupted policy formulation and monitoring and to facilitate negotiations on a successor arrangement.

IV. Staff Appraisal

46. **The authorities' performance under the current three-year arrangement has been commendable.** The authorities have shown dedication in meeting performance criteria and targets under the program: all quantitative performance targets and the end-June performance criterion relating to the Savings Bank have been met and most structural measures have been carried out—albeit some with delays.

47. **The authorities' policy framework for 2001 is justified in light of the circumstances, but continued fiscal vigilance is required.** In view of the level of public debt, risks to inflation, and uncertain prospects regarding the electricity sector, the staff urges extra caution in budget execution, particularly the use of reserve and contingency funds. In addition, any downside risks to tax revenue collection in 2001 should be addressed forcefully, in tandem with ongoing efforts to improve the application of the tax law, especially VAT refunds and profit tax assessment.

48. **Further interest rate reductions, moreover, do not appear warranted at present.** While inflation remains within the authorities' target range, it has picked up since mid-2000. Furthermore, differentials relative to foreign currency deposit interest rates have narrowed considerably and upward pressures on the exchange rate seem to have ceased since October 2000.

49. **Additional subsidies for electricity imports in 2001 are justified only against the background of a vigorous implementation of a strategy to reform the electricity sector.** While subsidies will help reduce disruptions to the electricity supply in 2001, they offer only a temporary solution: the budget cannot afford to allocate up to 1 percent of GDP to such subsidies on a continuous basis and financial support from the donors will likely decline in the future. It is, therefore, imperative that strong measures be taken to phase out subsidies to KESH, including the adoption of a two-tier tariff structure by October 2001, while maintaining progress in reducing illegal usage and nonpayment.

50. **Over the medium-term, higher spending in priority areas should accompany efforts to ensure fiscal sustainability.** Given the authorities' poverty reduction program and the expected decline in privatization proceeds and concessional external financing, medium term fiscal sustainability hinges on strong measures to strengthen tax and customs administration, reduce tax evasion, enhance budget execution, and reform the social security system.

51. **Timely privatization of the Savings Bank will be crucial for the modernization of the financial sector.** Following the announcement of the privatization tender (planned for end-June), the authorities will need to maintain their efforts and aim to select a suitable buyer for the Bank by November 2001. The authorities also need to ensure that privatization is accompanied by further measures to promote competition in the financial sector and to ensure the further development of the banking sector in all parts of the country.

52. **The authorities need to persevere with their strong commitment to enterprise privatization and reform, and an improved environment for investors.** They need to move ahead with announcing the tender for the privatization of Albtelekom by end-2001 and preparing the remaining state-owned assets in the oil sector for privatization. The authorities should also build on recent progress in strengthening the institutional environment for the private sector, and make stronger efforts to reduce bureaucratic hurdles for foreign and local investors. In addition, they should strengthen further the legal framework for the provision of credit to the private sector, including through a vigorous implementation of the collateral law.

53. **Despite the improvements of recent years, the Albanian economy continues to face institutional and infrastructural weaknesses, necessitating a bold program of structural reform under the authorities' growth and poverty reduction strategy.** Inadequate provision of basic services—including electricity, health care, and education—and weaknesses in the fiscal, legal, and administrative structures are key to two important failures of the system: extensive emigration and a continuation of poverty. The GPRS

provides an important opportunity to identify key impediments and to start addressing these problems effectively.

54. **Albania participates in the GDDS and supplies the Fund with key economic statistics on a timely basis.** While these data are adequate for program monitoring purposes, significant improvements are still required to enhance the ongoing assessment of economic developments and design of economic policies. The authorities' intention to eliminate the exchange restrictions under Article XIV—outstanding debit balances on inoperative bilateral payments agreements—is welcome. The authorities are urged to establish a clear timetable for this process.

55. **In view of the authorities' strong performance, including the observance of all end-March 2001 quantitative performance criteria and the end-June 2001 structural performance criterion on the Savings Bank, the staff recommends the completion of the final review.**

56. **The staff recommends that the next Article IV discussions take place on the regular 12-month cycle.**

Table 1. Albania: Basic Indicators and Macroeconomic Framework, 1998-2004

	1998	1999	2000		2001		2002	2003	2004
			Prog. 1/01		Prog. 1/01	Proj.	Proj.	Proj.	Proj.
			(In percent)						
Real GDP	8.0	7.3	7.8	7.8	7.3	7.3	7.0	7.0	7.0
Retail prices (avg.)	20.9	0.4	-0.2	0.0	2.5	2.5	3.0	3.0	3.0
Retail prices (end-period)	8.7	-1.0	1.5	4.2	3.0	3.0	3.0	3.0	3.0
			(In percent of GDP)						
Saving-investment balance 1/									
Foreign saving 2/	6.1	7.2	7.0	7.0	7.3	7.5	8.0	7.6	7.0
Domestic saving	9.9	9.6	12.0	12.0	12.7	12.5	13.0	13.8	14.8
Public 3/	-5.2	-5.8	-2.6	-2.6	-1.7	-2.1	-0.2	0.6	1.4
Private	15.1	15.4	14.6	14.6	14.5	14.6	13.2	13.2	13.4
Investment	16.0	16.8	19.0	19.0	20.0	20.0	21.0	21.4	21.8
Public	5.2	7.4	6.9	6.5	7.5	7.4	8.4	8.6	8.7
Private	10.8	9.4	12.1	12.5	12.5	12.6	12.6	12.8	13.1
Fiscal sector									
Revenues	20.3	21.3	23.0	22.4	23.2	23.0	24.1	24.9	25.6
Tax revenue	12.3	12.9	15.6	15.6	16.1	16.0	16.8	17.6	18.2
Expenditures	30.7	32.7	32.6	31.4	32.4	32.5	32.7	32.9	32.9
Non-interest	22.9	25.7	26.8	25.7	27.8	27.9	29.0	29.3	29.4
Non-interest current	17.7	18.3	19.9	19.2	20.3	20.6	20.6	20.7	20.7
Interest 4/	7.8	7.0	5.8	5.7	4.6	4.5	3.7	3.6	3.5
Overall balance	-10.4	-11.4	-9.5	-9.1	-9.2	-9.5	-8.6	-8.0	-7.3
Domestically financed balance 5/	-6.4	-5.2	-3.3	-3.2	-2.7	-3.3	-2.1	-2.4	-2.1
Public Debt	61.8	62.8	71.5	69.1	72.6	68.8	66.7	65.4	63.8
Domestic 6/	32.8	36.3	42.4	41.5	41.3	40.9	39.1	37.8	36.3
External (including publicly guaranteed)	28.9	26.5	29.1	27.6	31.3	27.8	27.5	27.6	27.5
Monetary indicators									
broad money	239.53	292.9	328.2	328.1	366.8	369.1	408.9	451.9596	499.4756
Broad money growth (in percent)	20.7	22.3	12.1	12.0	11.7	12.5	10.8	10.5	10.5
Private credit growth (in percent)	14.7	22.6	39.0	29.4	32.0	33.4	35.5	...	...
Velocity	1.92	1.73	1.63	1.64	1.61	1.61	1.61	1.61	1.61
Interest rate (3-mth T-bills, end-period)	20.4	14.8	...	7.8	...	...	...	...	...
			(In millions of U.S. dollars)						
External sector									
Trade balance 7/	-621	-663	-781	-814	-834	-10	-1009	-1077	-1142
(in percent of GDP)	-20.4	-18.0	-20.9	-21.7	-21.2	-22.1	-22.3	-21.5	-20.6
Current account balance	-98	-126	-151	-153	-198	-216	-270	-287	-284
(incl. official transfers; in percent of GDP)	-3.2	-3.4	-4.0	-4.1	-5.0	-5.3	-6.0	-5.7	-5.1
Official transfers 7/	89	139	111	108	87	93	92	93	102
(in percent of GDP)	2.9	3.8	3.0	2.9	2.2	2.3	2.0	1.9	1.9
Current account balance	-187	-265	-262	-261	-285	-309	-362	-380	-387
(in percent of GDP)	-6.1	-7.2	-7.0	-7.0	-7.3	-7.5	-8.0	-7.6	-7.0
Gross international reserves	384	485	550	608	620	680	720	755	800
(in months of imports of goods and services	4.2	3.8	4.4	4.4	4.6	4.5	4.4	4.3	4.3
(relative to external debt service)	21.8	29.3	22.4	25.8	14.9	18.9	13.3	13.2	12.3
(in percent of broad money)	22.6	22.4	25.1	26.4	25.4	26.7	25.5	24.2	23.2
Change in real effective exchange rate	18.3	12.5	6.0	7.0	...	...	...	...	...
Memorandum items									
Nominal GDP (in millions of lek)	460,631	506,205	536,429	539,210	588,753	594,346	657,030	726,219	802,569

Sources: Albanian authorities and Fund staff estimates and projections.

1/ Very preliminary estimates owing to lack of national accounts.
2/ Current account excluding official transfers.
3/ Revenue minus current expenditure.
4/ Including interest payments for bank restructuring.
5/ Excluding privatization revenues.
6/ Including bonds for bank restructuring (lek 4.3 bn for 1999; lek 20.3 bn for 2000).
7/ For 1999 excluding imports of direct humanitarian aid related to the Kosovo crisis.

Table 2. Albania: Balance of Payments, 1999-2005

(In millions of US dollars)

14-Jun-01	1999 Est. 1/	2000 Prog. 1/01	2000	2001 Prog. 1/01	2001 Proj.	2002 Proj.	2003 Proj.	2004 Proj.	2005 Proj.
I. Current account	-265	-262	-261	-285	-309	-362	-380	-387	-390
Trade balance	-846	-781	-814	-834	-906	-1,009	-1,077	-1,142	-1,210
Exports	275	272	256	305	282	310	347	388	435
Imports	1,121	1,054	1,070	1,139	1,188	1,318	1,424	1,531	1,646
o/w: Humanitarian aid related to the Kosovo crisis	183	0	0	0	0	0	0	0	0
Services and income	71	-5	115	-1	128	143	159	180	204
o/w : Interest due 3/	7	9	8	19	23	21	25	31	33
Private transfers	327	524	439	550	469	503	538	576	616
Official transfers related to the Kosovo crisis	183	0	0	0	0	0	0	0	0
II. Capital account	219	319	305	308	354	398	401	427	439
Official transfers	139	111	108	87	93	92	93	102	103
Direct investment	51	143	141	144	214	235	184	188	202
Other capital including short-term flows	-44	-32	-14	-32	-51	-37	0	0	0
Short-term capital	0	0	23	0	0	0	0	0	0
Other financial flows (increase = -)	-44	-32	-36	-32	-51	-37	0	0	0
o/w Change in NFA of commercial banks (incr=-)	-44	-32	-36	-32	-51	-37	0	0	0
Official medium- and long-term loans (net) 2/	72	97	70	109	99	108	125	137	134
New borrowing	80	106	79	118	107	127	148	163	163
Amortization 2/	-8	-9	-9	-9	-8	-20	-23	-26	-29
III. Errors and omissions	28	0	40	0	0	0	0	0	0
IV. Net balance = I+II+III	-19	56	84	24	45	36	21	41	49
V. Financing requirement = - IV	19	-56	-84	-24	-45	-36	-21	-41	-49
Available financing	19	-57	-84	-84	-66	-54	-44	-53	-58
Change in net reserves (increase = -)	-83	-57	-111	-84	-80	-54	-44	-53	-58
Change in gross reserves, (increase = -)	-101	-69	-123	-70	-72	-40	-35	-45	-50
Use of Fund Resources (net)	17	12	12	-14	-8	-14	-9	-8	-8
Fund (ESAF/PRGF)	21	19	19	0	6	0	0	0	0
Repayments to Fund	-3	-7	-7	-14	-14	-14	-9	-8	-8
BOP support	96	0	27	0	4	0	0	0	0
Changes in arrears (increase = +) 3/	0	0	0	0	-18	0	0	0	0
Overdue debt forgiveness 3/	0	0	0	0	9	0	0	0	0
Debt service relief (rescheduling) 3/	5	0	0	0	18	0	0	0	0
Financing gap	0	0	0	60	21	18	23	12	9
Identified financing (provisional)	0	0	0	51	13	11	0	0	0
Remaining gap	0	0	0	10	8	7	23	12	9
Memorandum items:									
Gross usable reserves	485	550	608	620	680	720	755	800	850
(months of imports of goods and services) 4/	3.8	4.4	4.4	4.6	4.5	4.4	4.3	4.3	4.2
Trade balance (percent of GDP) 5/	-23.0	-20.9	-21.7	-21.2	-22.1	-22.3	-21.5	-20.6	-19.9
Current account (percent of GDP)	-7.2	-7.0	-7.0	-7.3	-7.5	-8.0	-7.6	-7.0	-6.4
Debt service (percent of exports of goods and services) 6/	3.0	4.8	3.3	7.4	4.6	6.3	6.0	6.2	6.1
External debt (percent of GDP) 7/	27	29	28	31	28	28	28	27	27
Merchandise exports (percent growth)	34	-1	-7	12	10	10	12	12	12
Merchandise imports (percent growth) 4/	13	12	14	8	11	11	8	8	8

1/ Estimated revisions to 1999 tourism services receipts and expenditures based on new methodology introduced in 2000. Staff estimate.

2/ Excluding IMF.

3/ The figure for 2001 corresponds to the clearance of arrears to Turkey (and the penalty interest imposed and forgiven) as a result of the rescheduling agreement finalized in May 2001.

4/ Excludes imports (official transfers) related to the Kosovo crisis.

5/ Includes imports (official transfers) related to the Kosovo crisis; excluding Kosovo-related imports the trade deficit in 1999 would be 18.0 per cent of GDP.

6/ Debt service excludes penalty interest imposed (and forgiven) on the arrears rescheduled with Turkey in 2001.

7/ Includes arrears.

Table 3. Albania: Quantitative Performance Criteria and Indicative Targets for 2000-2001 1/

	Performance criteria under the PRGF arrangement 2/ (Cumulative changes from Dec. 1999)						Targets (Cumulative changes from Dec. 2000)		
	End-Dec. 2000			End-Mar. 2001			End-June 2001	End-Sep. 2001	End-Dec. 2001
	Prog.	Adj. Prog.		Prog.	Adj. Prog.				
1. Ceiling on domestic credit to the government 3/	24	20	17.2	29	21	14.0	3	9	17
2. Ceiling on net domestic assets of the BOA	8	9	-3.5	8	11	-13.7	-8	-5	1
3. Indicative target for tax revenues	82	82	82.7	103	103	103	42	66	93
4. Indicative target for revenues collected by Customs Department	47	47	47.9	57	57	59	22	36	52
5. Floor for net international reserves of the BOA 4/	75	70	173.8	94	78	219.7	57	64	77
6. Ceiling on contracting or guaranteeing of non-concessional external debt with maturities 1-15 years	60	60	24.6	60	60	24.6	20	40	60
Of which: 1-5 years	10	10	0	10	10	0	5	5	10
7. Ceiling on public and publicly-guaranteed external debt with máturities of up to 1 year	0	0	0	0	0	0	0	0	0

1/ The performance criteria and indicative targets er

2/ Performance criteria, except for tax revenues and revenues collected by the Customs Department, which are indicative targets.

3/ The indicative targets for 2001 assume privatization receipts of Lek 13.2 billion and budget support of Lek 1.8 billion.

4. The indicative targets for June-December 2001 are derived using the end-2000 exchange rate.

Table 4. Albania: Monetary Aggregates, 1999-2002
(In billions of leks unless otherwise indicated; end-period)

	1999	2000					2001					2002
	Dec.	March	June	Sept.	Dec.	Dec. Prog. 1/01	March	June Proj.	Sep Proj.	Dec. Proj.	Dec. Prog. 1/01	Dec. Proj.
Monetary survey												
Broad money	292.9	295.4	299.8	311.7	328.1	328.2	337.9	343.1	353.9	369.1	366.8	408.9
Currency outside banks	81.3	83.4	85.6	92.0	99.2	95.2	94.8	96.6	100.0	106.8	105.3	118.4
Deposits	211.5	212.0	214.3	219.8	228.9	233.0	243.2	246.6	253.9	262.3	261.5	290.6
Domestic currency deposits	158.3	155.2	157.2	156.7	165.3	168.0	170.6	174.0	180.5	186.4	185.4	206.5
Foreign currency deposits	53.2	56.7	57.1	63.0	63.6	65.0	72.5	72.6	73.5	75.9	76.1	84.1
M1	103.0	103.9	107.3	112.9	124.0	116.9	116.6	118.8	123.0	131.4	129.3	145.6
M2	239.7	238.7	242.8	248.7	264.5	263.2	265.4	270.6	280.4	293.2	290.7	324.9
Net foreign assets	100.1	98.7	102.4	121.8	130.5	125.8	146.3	146.5	147.9	150.6	141.8	163.9
Bank of Albania	46.9	47.0	52.5	63.6	71.8	67.5	79.9	80.7	81.9	84.1	78.2	91.9
Commercial Banks	53.1	51.7	49.9	58.2	58.6	58.3	66.4	65.8	65.9	66.5	63.6	71.9
Net domestic assets	192.8	196.7	197.5	190.0	197.7	202.5	191.6	196.6	206.0	218.5	224.9	245.1
Claims on government (net of deposits)	203.2	205.3	210.3	210.8	218.6	219.2	218.4	219.3	224.4	234.4	233.8	249.8
Claims on state enterprises and farms	1.7	1.6	1.6	1.6	1.1	1.6	0.6	0.6	0.6	0.6	1.7	0.6
Claims on the private sector	18.2	19.8	21.1	23.5	23.6	25.3	24.6	26.7	29.0	31.4	33.4	42.6
of which in leks	9.5	9.4	9.5	9.5	8.9	9.9	9.6	10.3	11.8	12.4	12.3	20.9
in foreign currency	8.7	10.3	11.6	14.0	14.6	15.4	15.0	16.4	17.2	19.0	21.1	21.8
Other items, net	-30.3	-30.0	-35.6	-46.0	-45.5	-43.6	-52.0	-50.0	-48.0	-48.0	-44.0	-48.0
Monetary authorities												
Reserve money	109.3	108.8	111.2	124.2	128.8	127.6	125.3	127.5	131.8	139.8	141.5	154.9
Program NIR 1/	271.8	273.4	307.2	384.1	445.6	347.3	491.5	...	...	...	...	...
Program NDA 1/	72.6	71.9	69.7	72.3	68.5	80.6	58.8	...	...	...	...	...
Target NIR 2/	...	...	...	...	428.4	...	475.2	486.8	494.6	507.8	...	...
Target NDA 2/	...	...	...	...	67.7	...	57.5	58.1	61.3	67.3	...	...
Memorandum items:												
Broad money growth during the year	22.3	0.9	2.4	6.4	12.0	12.1	3.0	4.6	7.9	12.5	11.7	10.8
Of which:												
Net foreign assets	7.1	-0.5	0.8	7.4	10.4	8.8	4.8	4.9	5.3	6.1	4.9	3.6
Net domestic assets	15.2	1.3	1.6	-1.0	1.7	3.3	-1.8	-0.3	2.5	6.4	6.8	7.2
Claims on government	9.9	0.7	2.5	2.6	5.3	5.5	-0.1	0.2	1.8	4.8	4.5	4.2
Domestically bank-financed deficit	23.8	...	...	...	15.4	16.0	...	...	...	15.8	14.7	15.4
in percent of GDP	4.7	...	...	...	2.9	3.0	...	...	...	2.7	2.5	2.3
Cumulative change in banks' NFA during the year	...	-1.5	-3.3	5.0	5.5	5.2	7.8	7.2	7.3	7.9	5.3	5.4
Annual broad money growth (y-o-y; in percent)	22.3	17.9	13.4	13.4	12.0	12.1	14.4	14.4	13.5	12.5	11.7	10.8
Annual reserve money growth (y-o-y; in percent)	21.6	24.1	17.9	25.9	17.8	16.7	15.1	14.7	6.1	8.5	10.9	10.8
Annual growth in private credit (y-o-y; in percent)	22.6	20.8	29.7	41.8	29.4	39.0	24.5	26.6	23.1	33.4	32.0	35.5
Annual M1 growth (y-o-y; in percent)	23.0	30.4	22.9	24.7	20.4	13.5	12.2	10.7	8.9	6.0	10.6	10.8
Annual M2 growth (y-o-y; in percent)	20.3	16.1	12.3	12.3	10.4	9.8	11.2	11.5	12.8	10.9	10.4	10.8
Velocity (Quarterly GDP/BM)	44.0	44.9	44.8	42.5	42.6	41.9	42.1	42.4	42.4	42.4	42.2	42.3
Money multiplier (absolute values)	2.68	2.71	2.70	2.51	2.55	2.6	2.70	2.69	2.68	2.64	2.59	2.64
Currency/Broad Money ratio	27.8	28.2	28.5	29.5	30.2	29.0	28.0	28.1	28.2	28.9	28.7	28.9
Currency/deposit ratio	38.5	39.4	39.9	41.8	43.4	40.8	39.0	39.2	39.4	40.7	40.3	40.7
Deposits/broad money	72.2	71.8	71.5	70.5	69.8	71.0	72.0	71.9	71.8	71.1	71.3	71.1
Foreign currency deposits/total deposits	25.2	26.8	26.6	28.7	27.8	27.9	29.8	29.4	28.9	28.9	29.1	28.9
Gross reserves in U.S. dollars	484.6	476.2	477.5	536.8	607.8	550.0	648.3	660.0	670.0	680.0	620.0	720.0
in percent of broad money	22.4	22.6	22.6	25.3	26.4	25.1	28.2	27.9	27.5	26.7	25.4	25.5
in percent of reserve money	59.9	61.4	60.9	63.5	67.3	64.7	76.0	75.0	73.7	70.5	65.7	67.4
US Dollar Exchange Rate (end of period)	135.2	140.2	141.8	147.0	142.6	150.0	146.9	...	...	...	...	...

Sources: Bank of Albania; and staff estimates.

1/ According to the definition in the Technical Memorandum of Understanding; derived using the program exchange rate.
2/ Target for the period after completion of the program. Derived using end-2000 exchange rates.

Table 5. Albania: Government Revenues and Expenditures, 1997-2001
(In percent of GDP)

	1997	1998	1999	2000		2001	
				Revised Budget Progr. 1/01		Budget Progr. 1/01	Projection
Total Revenue	16.7	20.3	21.3	23.0	22.4	23.2	23.0
II. Tax Revenue:	9.5	12.3	12.9	15.6	15.6	16.1	16.0
II.1 Tax revenues from tax and customs directorates	9.5	12.2	12.7	15.4	15.3	15.8	15.7
1. Turnover tax / VAT	4.6	6.2	5.9	7.3	7.1	7.5	7.4
2. Profit tax	0.7	0.9	1.2	1.1	1.5	1.4	1.4
3. Excise tax	0.6	1.1	1.4	1.7	1.7	1.9	1.9
4. Small business tax	0.1	0.2	0.2	0.3	0.3	0.4	0.4
5. Personal income tax	0.2	0.3	0.6	0.7	0.9	1.0	1.0
6. National taxes 1/	0.6	0.7	1.2	1.5	1.4	1.4	1.4
7. Customs duties	2.6	2.7	2.3	2.6	2.5	2.3	2.3
II.2 Property and local taxes	0.0	0.0	0.2	0.2	0.2	0.3	0.3
III. Social insurance contributions	3.8	3.4	3.6	3.7	3.7	3.8	3.8
1. Social insurance	3.6	3.2	3.3	3.3	3.4	3.5	3.5
2. Health insurance	0.3	0.3	0.3	0.3	0.3	0.3	0.3
IV. Non-tax revenue:	3.2	4.5	4.8	3.8	3.1	3.2	3.2
1. Profit transfer from BOA	2.4	3.6	3.5	2.0	1.9	1.5	1.5
2. Income of budgetary institutions	0.5	0.7	1.1	1.3	0.9	1.1	1.1
3. Other	0.3	0.2	0.2	0.6	0.3	0.6	0.6
Total Expenditure	29.4	30.7	32.7	32.6	31.4	32.4	32.5
I. Current Expenditure	25.4	25.5	25.2	25.4	24.7	24.4	24.6
1. Personnel cost	7.5	6.2	6.1	6.5	6.5	6.4	6.3
Wages and other personnel expenditures	6.0	4.8	4.7	5.1	5.1	5.0	5.0
a. Wages	6.0	4.8	4.7	4.7	4.8	4.8	4.8
b. Wage bonus from solidarity tax	0.0	0.0	0.0	0.4	0.4	0.2	0.2
Social insurance contributions	1.5	1.4	1.4	1.4	1.4	1.4	1.4
2. Interest	5.5	7.8	6.9	5.5	5.5	4.1	4.0
a. Domestic	5.3	7.6	6.8	5.2	5.4	3.7	3.7
b. Foreign	0.2	0.2	0.1	0.3	0.1	0.3	0.3
3. Operations & maintenance	4.0	4.0	4.7	4.4	4.3	4.6	4.5
a. general govt op. & maintenance	0.0	0.0	3.3	3.4	3.2	3.5	3.4
b. local (through grants)	0.0	0.0	1.1	0.8	0.9	0.8	0.8
c. local (own finance)	0.0	0.0	0.2	0.2	0.3	0.3	0.3
4. Subsidies 2/	0.5	0.5	0.4	0.5	1.0	0.9	1.3
a. subsidies for KESH	...	...	...	...	0.6	0.6	1.0
b. others	...	...	...	...	0.4	0.3	0.3
5. Social insurance outlays	5.9	5.3	5.4	5.9	5.8	6.0	6.0
a. Social insurance	5.4	4.8	4.9	5.3	5.4	5.4	5.3
b. Other social insurance schemes	0.0	0.0	0.0	0.0	0.0	0.1	0.1
c. Health insurance	0.5	0.5	0.5	0.6	0.5	0.5	0.5
6. Other expenditures:	2.1	1.7	1.6	2.6	1.6	2.4	2.4
a. Unemployment insurance benefits	0.6	0.4	0.3	0.3	0.4	0.3	0.3
b. Social assistance 2/	1.3	1.3	1.3	1.3	1.2	1.1	1.1
c. Political prisoner compensation	0.1	0.0	0.0	0.0	0.0	0.0	0.0
d. Housing subsidy/other	0.1	0.0	0.1	0.0	0.0	0.0	0.0
e. Reserve Fund/contingency	0.0	0.0	0.0	0.9	0.0	1.0	1.0
II. Capital Expenditure	4.0	5.2	7.4	6.9	6.5	7.5	7.4
1. Domestically financed	1.9	2.3	2.4	2.9	2.9	3.5	3.4
a. from the budget	1.9	2.3	2.2	2.7	2.9	3.2	3.1
b. other	0.0	0.0	0.2	0.2	0.1	0.3	0.3
2. Foreign financed projects	2.1	2.9	3.4	3.7	3.0	4.0	4.0
3. Kosovo related costs	0.0	0.0	1.6	0.3	0.6	0.0	0.0
III. Interest cost of bank restructuring	0.0	0.0	0.1	0.2	0.2	0.5	0.5
Cash Balance	(12.8)	(10.4)	(11.4)	(9.5)	(9.1)	(9.2)	(9.5)
Financing	12.8	10.4	11.4	9.5	9.1	9.2	9.5
Sources of financing							
Domestic Financing	11.0	6.4	5.4	5.0	4.9	4.4	5.5
- Privatization receipts	0.3	0.0	0.2	1.8	1.7	1.7	2.2
- Net domestic borrowing	10.7	6.4	5.2	3.3	3.2	2.7	3.3
Foreign Financing	1.8	4.0	6.1	4.5	4.3	4.8	4.0
Budget support	0.0	1.4	2.9	1.0	1.4	1.0	0.3
World Bank	0.0	1.2	0.3	0.0	0.6	0.6	0.0
EU	0.0	0.2	0.4	0.3	0.1	0.0	0.1
Other	0.0	0.0	0.2	0.5	0.4	0.4	0.0
unidentified financing	0.0	0.0	0.1	0.0	0.0	0.0	0.0
Kosovo related financing	0.0	0.0	1.9	0.3	0.3	0.0	0.0
Development (gross)	2.1	2.9	3.4	3.7	3.0	4.0	4.0
minus: principal repayment	0.3	0.3	0.2	0.2	0.2	0.2	0.2
Memorandum Items:							
Total grants	0.7	2.0	3.2	...	2.2	1.6	1.4
Overall deficit (including grants)	12.1	8.4	8.2	...	6.8	7.6	8.1
GDP (in millions of leks)	341,716	460,631	506,205	536,429	539,210	588,753	594,346
Expenditures by function as percentage of GDP 3/							
Health	...	...	2.4	2.7	2.3	3.1	3.0
Education	...	...	3.3	3.4	3.2	3.4	3.3

Notes:

1/ Includes solidarity tax and non tax revenue collected by Customs Department.

2/ In 2001 expenditure on work incentive programs (lek 400 million) has been reclassified under subsidies.

3/ The expenditure figures based on the functional classification are highly provisional. The Albanian authorities have only recently started to work on the functional classification.

Table 6. Albania: Structural Performance Criteria and Structural Benchmarks Under the Third Annual PRGF Arrangement

		Status as of end-May, 2001
A.	**Structural Performance Criteria**	
1.	Finalize privatization of AMC and two out of five mid-sized enterprises (end-September 2000).	Completed on October 4, 2000
2.	Appoint privatization advisor for the Savings Bank (end-September 2000).	Completed at end-December 2000
3.	Announce tender for privatization of the Savings Bank (end-June 2001).	Preparations ongoing.
B.	**Structural Benchmarks**	
1.	Internal audit unit to produce monthly reports on the valuation of imports and the Director-General to produce at least four monthly reports (September-December 2000) covering corrective measures that were taken based on the reports of the Internal Auditing Unit.	Ongoing; changed to monthly IAU reports as of October 2000; disciplinary and other corrective management actions being taken.
2.	Complete reviews of 16 special customs regime licenses for inward processing by end-June 2000, 151 by end-September 2000, and 396 by end-December 2000.	Met as of February 20. Of the original 396 enterprises with an inward-processing license, 108 have ceased activity. 13 reviews completed by end-June, 141 by end-September and 259 by end-December.
3.	Approve amendments to the Social Security Law (end-September 2000).	Amendments approved by the Council of Ministers; approved by parliament in April.
4.	Complete due diligence for the Savings Bank, including registration of fixed assets by May 2001.	Broadly on track. Currently about 90 percent of assets—or all for which the SB has clear title—have been registered.
5.	Complete process of converting government's nonmarketable obligations to the Bank of Albania into marketable securities by end-September 2000.	Completed March 2001.
6.	Complete first-time registration in 1,590 cadastral zones by end-December 2000, and in 1,680 cadastral zones by end-March 2001.	Met: Registration of 1651 cadastral zones completed by end-December 2000, and 1679 by end-January 2001.

7.	Sell or lease the Burrel smelter and the Bulqize mine (end-December 2000).	Negotiations completed in April 2001.
8.	Prepare an action plan for selling or liquidating SERVCOM (end-June 2000), and privatize or liquidate the company (end-December 2000).	Delayed; Action plan prepared in June 2000; privatization for non-strategic part ongoing and to be finalized before mid-2002; strategic part largely to be privatized by end-2001.
9.	Audit the 1999 financial statements of Albtelecom (end-June 2000).	Audit completed. Discrepancies with respect to international accounting standards found in the 1999 audit will be taken care of in the 2000 audit.
10.	Make the registry of collateralized property fully functional (end-June 2000).	Registry opened on January 26, 2001.
11.	Make the credit information bureau fully operational (end-December 2000).	Postponed to end-December 2001, due to difficulties with finding an appropriate consultant.
12.	Approve in parliament the new bankruptcy law fully consistent with the law on collateralized transactions (end-December 2000).	Delayed. Law expected to go to the Council of Ministers for approval in July 2001 and to be approved by parliament in September 2001.
13.	Submit to parliament the law on offices for the execution of court decisions in civil cases (end-December 2000).	Law approved by parliament in January 2001.
14.	Complete the privatization of three SME's (brewery, dairy, winery) by end-December 2000.	All SME's privatized as of end-December 2000, except for the brewery which was privatized in May, 2001.
15.	Establish an operational mediation center by July 2001.	Postponed to end 2001.
16.	Fully implement an annual appraisal system in the customs department (by end-2000).	Fully implemented.

Table 7. Albania: Indicators of External and Financial Vulnerability, 1994-2002
(In percent of GDP, unless otherwise indicated)

	1994	1995	1996	1997	1998	1999	2000	2001 Proj.	2002 Proj.
Financial Indicators									
Public sector debt	...	53.2	57.9	69.0	61.8	62.7	69.1	68.7	66.7
Broad money (percent change, end of period)	40.6	51.8	43.8	28.5	20.6	22.3	12.0	12.5	10.8
Private Sector credit (percent change, end of period)	61.4	15.9	30.5	45.2	14.7	22.6	29.4	33.4	35.5
Interest rate (3-mth T-bills, end period)	...	...	21.1	35.9	20.4	14.8	7.8	...	...
Foreign currency deposits (share of total deposits)	30.8	30.6	31.8	28.9	23.5	25.2	27.8	28.9	28.9
External indicators									
Exports (annual percent change, in US dollars)	...	44.9	11.8	-27.1	22.9	34.2	-7.0	10.0	10.0
Imports (annual percent change, in US dollars) 1/	...	13.0	35.6	-25.6	20.6	13.5	14.1	11.0	11.0
Current account balance									
(excluding official transfers) 1/	-14.0	-7.3	-9.1	-12.1	-6.1	-7.2	-7.0	-7.5	-8.0
(including official transfers)	-5.9	-2.4	-6.2	-8.7	-3.2	-3.4	-4.1	-5.3	-6.0
Capital and financial account balance	9.1	8.3	6.2	3.7	3.2	6.0	8.1	8.6	8.8
o/w: Foreign direct investment	3.3	3.7	3.6	1.8	1.5	1.4	3.8	5.2	5.2
Gross official reserves (in US dollars, millions)	204.3	240.3	275.3	306.2	384.0	484.6	607.8	680.0	720.0
Official reserves in months of imports (goods and services)	2.9	2.7	4.0	3.8	3.7	3.8	4.4	4.5	4.4
Official reserves to broad money (ratio)	0.3	0.2	0.2	0.2	0.2	0.2	0.3	0.3	0.3
Official reserves to reserve money (ratio)	0.5	0.4	0.5	0.5	0.6	0.6	0.7	0.7	0.7
Central bank foreign liabilities (in US dollars, millions)	621.5	357.1	357.1	361.1	392.0	178.8	143.6	...	...
Foreign assets of the banking sector (in US dollars, millions)	177.3	249.0	343.8	261.2	355.5	429.0	456.5	...	...
Foreign liabilities of the banking sector (in US dollars, millions)	19.0	12.1	11.8	13.5	20.4	35.8	45.2	...	...
Total external debt (in US dollars, millions)	1005.2	682.3	733.7	759.3	881.7	975.4	1032.7	1138.9	1247.1
Total external debt	50.7	28.2	27.3	33.2	28.9	26.5	27.6	27.8	27.5
Total external debt to exports (percent)	446.3	225.8	210.3	312.5	313.1	164.3	146.2	144.8	144.1
Total short term external debt to reserves (percent) 2/	21.7	2.7	4.2	4.5	4.2	2.9	2.7	3.3	5.6
External amortization payments to exports (in percent)	2.7	0.2	1.5	3.1	3.4	1.3	1.2	1.1	2.3
External interest payments to exports (in percent)	17.0	2.0	1.8	2.6	2.4	1.1	1.1	1.8	2.4
External debt service to exports (in percent) 3/	19.7	2.1	3.3	5.7	5.8	2.4	2.3	2.8	4.7
External debt service to exports (in percent) 4/	19.7	2.5	5.7	9.0	6.2	3.0	3.3	4.6	6.3
External debt service 3/	2.2	0.3	0.4	0.6	0.5	0.4	0.4	0.5	0.9
External debt service 4/	2.2	0.3	0.7	1.0	0.6	0.5	0.6	0.9	1.2
Change in REER (+ appreciation)	32.4	-1.5	-3.2	0.3	18.3	12.5	7.0	...	...
Exchange rate (period average)									
(lek per US dollar)	95.4	93.0	104.8	149.6	151.2	138.1	144.0	...	...
(lek per euro)	114.8	127.0	136.1	168.6	168.4	148.2	133.4	...	...

Sources: Data provided by the authorities and IMF staff estimates.

1/ Excludes imports (official transfers) related to the Kosovo crisis.
2/ Residual maturity basis.
3/ Excluding IMF.
4/ Including IMF.

Table 8. Albania: Projected Payments to the Fund as at April 30, 2001
(in millions of SDRs)

	Overdue	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	Beyond	Total
Obligations from existing drawings													
1. Principal													
a. Repurchases	0	3.3	4.4	0	0	0	0	0	0	0	0	0	7.7
b. PRGF/SAF Repayments	0	3.8	6.2	6.8	6.4	6.2	7.6	8.1	7.5	5.3	2.6	0.5	60.9
2. Charges and Interest 1/													
a. on Fund credit	0	0.5	0.4	0.2	0.2	0.2	0.1	0.1	0.1	0	0	0	1.9
b. on use of SDRs	0	-0.6	0	0	0	0	0	0	0	0	0	0	-0.6
Total obligations 2/	0	7	11	7	6.6	6.3	7.7	8.2	7.5	5.4	2.6	0.5	69.9
(percent of quota)	0	14.4	22.6	14.5	13.6	13	15.9	16.8	15.5	11	5.4	1	143.6
Obligations from prospective drawings													
1. Principal													
a. Repurchases	0	0	0	0	0	0	0	0	0	0	0	0	0
b. PRGF/SAF Repayments	0	0	0	0	0	0	0.5	0.9	0.9	0.9	0.9	0.5	4.7
2. Charges and Interest 1/													
a. on Fund credit	0	0	0	0	0	0	0	0	0	0	0	0	0.2
b. on use of SDRs	0	0	0	0	0	0	0	0	0	0	0	0	0
Total obligations 2/	0	0	0	0	0	0	0.5	1	1	1	0.9	0.5	4.9
(percent of quota)	0	0	0	0	0	0	1	2	2	2	1.9	1	10
Cumulative (existing and prospective)													
1. Principal													
a. Repurchases	0	3.3	4.4	0	0	0	0	0	0	0	0	0	7.7
b. PRGF/SAF Repayments	0	3.8	6.2	6.8	6.4	6.2	8.1	9	8.4	6.3	3.5	0.9	65.7
2. Charges and Interest 1/													
a. on Fund credit	0	0.5	0.4	0.3	0.2	0.2	0.2	0.1	0.1	0	0	0	2.1
b. on use of SDRs	0	-0.6	0	0	0	0	0	0	0	0	0	0	-0.6
Total obligations 2/	0	7	11.1	7.1	6.6	6.4	8.2	9.1	8.5	6.3	3.6	0.9	74.8
(percent of quota)	0	14.5	22.7	14.5	13.6	13.1	16.9	18.7	17.4	13	7.3	1.9	153.6
Outstanding Fund credit 2/ (In millions of SDRs)	...	66.3	55.6	48.8	42.4	36.3	28.2	19.2	10.8	4.5	1.0	...	...
In percent of:													
Exports of goods	...	31.3	24.2	19.0	14.7	11.3	7.8	...	...	...	...	...	...
External public debt	...	307.8	258.5	224.5	195.8	168.4	146.8	...	...	...	...	...	...
Gross official reserves	...	12.7	10.1	8.5	7.0	5.7	4.2	...	...	...	...	...	...
GDP	...	2.2	1.7	1.3	1.0	0.8	0.6	...	...	...	...	...	...
Quota	...	136.0	114.2	100.3	87.1	74.5	57.9	...	...	...	...	...	...
Repurchases and charges due 2/ (In millions of SDRs)	...	7.0	11.1	7.1	6.6	6.4	8.2	9.1	8.5	6.3	3.6	0.9	...
In percent of:													
Exports of goods	...	3.3	4.8	2.8	2.3	2.0	2.3	...	...	...	...	...	...
External public debt	...	32.5	51.6	32.6	30.5	29.7	42.7	...	...	...	...	...	...
Gross official reserves	...	1.3	2.0	1.2	1.1	1.0	1.2	...	...	...	...	...	...
GDP	...	0.2	0.3	0.2	0.2	0.1	0.2	...	...	...	...	...	...
Quota	...	14.5	22.7	14.5	13.6	13.1	16.9	...	...	...	...	...	...

1/ Projections are based on current rates of charge, including burden-sharing charges where applicable, for purchases in the GRA, and on current interest rates for SAF, PRGF, and Trust Fund. The current SDR interest rate is assumed for net use of SDRs.

2/ Overdue obligations (if applicable) will be settled in full at close of business May 01, 2001.

Table 9. Albania: Additional Structural Measures for the Period July-December 2001

1. Commission an international consulting firm to carry out an independent review of the planned Bushati Hydropower Project, and assess the results of this review in consultation with the World Bank. If no major problems are found, the project will move ahead.

2. Develop a comprehensive set of measures to reduce demand and increase average tariffs in the electricity sector. In particular, adopt a two-tier tariff structure, in line with proposals by the Albanian Power Sector Reform Task Force, to discourage use of electricity for heating.

3. Select a buyer for the Savings Bank and initiate negotiations.

4. Bring Albtelecom to the point of sale.

5. Provide adequate office space to Large Taxpayer Unit and establish merit-based bonus payments and annual appraisal systems in the tax department.

6. Review the treasury system, with technical assistance from the World Bank, with a view to improving timeliness, coverage, and accuracy of reporting foreign-financed capital expenditures.

7. Establish an investment promotion agency and a mediation center; and conduct a study of administrative barriers to investment with the assistance of FIAS.

ALBANIA: FUND RELATIONS
As of April 30, 2001

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

II. General Resources Account:	SDR Million	%Quota
Quota	48.70	100.0
Fund Holdings of Currency	53.07	109.0
Reserve position in Fund	3.36	6.9

III. SDR Department:	SDR Million	%Allocation
Holdings	63.13	N/A

IV. Outstanding Purchases and Loans:	SDR Million	%Quota
ESAF arrangements	60.95	125.1
First Credit Tranche	7.72	15.9

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
ESAF/PRGF	05/13/1998	07/31/2001	45.04	40.34
ESAF	07/14/1993	07/13/1996	42.36	31.06
Stand-by	08/26/1992	07/14/1993	20.00	13.13

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

	Overdue			Forthcoming		
	2/28/2001	2001	2002	2003	2004	2005
Principal		8.7	10.6	6.8	6.4	6.2
Charges/Interest		0.5	0.4	0.2	0.2	0.2
Total		9.2	11.0	7.0	6.6	6.4

VII. Exchange Rate Arrangement

On July 1, 1992 the Albanian authorities announced the removal of virtually all exchange and quantitative trade restrictions, unified the exchange markets, and adopted a floating exchange rate system (an independent float). The unified exchange rate stood at 145.0 lek per U.S. dollar on April 30, 2001.

VIII. Resident Representative

A Fund resident representative has been posted in Tirana since April 1993; Mr. Volker Treichel has held this position since January 1999.

IX. Technical Assistance

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

ALBANIA: RELATIONS WITH THE WORLD BANK GROUP

Background

Albania joined the World Bank Group in October 1991. Since then, the Bank has been actively involved in the design and implementation of Albania's reform program through its policy advice, lending operations, and technical assistance in various sectors. Beginning with the Critical Imports Project in 1992, the Bank to date has approved a total of 40 operations amounting to US$549.6 million in credits, of which 20 are completed now. Under the current Bank portfolio (US$239.6 million), 25 percent of the credits support agriculture, 47 percent infrastructure, 7 percent social sectors, and 21 percent technical assistance.

Current and medium-term initiatives

2. The Bank has been actively supporting Albania's economic recovery efforts after the 1997 crisis. The Rehabilitation Credit, approved by the Bank Board in December 1997, provided support for priority structural measures (resolution of the pyramid schemes and reform of the banking sector), and for alleviating the increased poverty and unemployment generated by the crisis. The Rehabilitation Credit was approved in parallel with the Recovery Program TA Project which is financing the implementation of the policy measures supported by the Rehabilitation Credit. In February 1998, the Bank Board approved the Private Industry Recovery Project, which provides political risk cover for commercial financing of productive activities. An Urban Land Management Project and Durres Port Project were also approved in 1998, and support priority infrastructure development. In addition, the Health Recovery and Development Project provides support in a priority area of the social sectors after the 1997 crisis.

3. The Bank's Country Assistance Strategy (CAS) for Albania was approved in 1998 and covers the period of 1998-2001. The CAS focuses on 3 strategic priorities: (i) Governance and institution building to help to establish an accountable, transparent and efficient state. The Bank will address these issues through a judicial and public administration reform project to be approved this fiscal year; (ii) Private sector development (including maintenance of macroeconomic stability, financial sector and enterprise reforms, and infrastructure improvement); and (iii) Human development and poverty alleviation. The Community Works Project was approved in January 1999, to assist rural communities with infrastructure and social infrastructure development. A CAS Progress Report was presented to the Board on March 21, 2000. While the CAS Progress Report continues to focus on the three strategic priorities outlined above, it places a renewed emphasis on poverty reduction, and in particular on its social underpinnings. At the same time, the Government has launched a participatory process to prepare a full scale Poverty Reduction Strategy Paper (PRSP) by mid 2001.

4. Since the Kosovo crisis and the large influx of refugees, the Bank has put more immediate emphasis on support to the social sectors, especially health and education, and on emergency interventions in infrastructure like transport, water supply and sanitation. The Bank's activities in response to the crisis aimed mainly at long-term development objectives rather than short-term relief, and included cooperation with other donors, especially non-governmental organizations, in areas of relief and humanitarian assistance. The Public Expenditure Support Credit of US$30 million, approved in May 1999, is an example of efforts to support Albania's budget and the government's ability to coordinate and direct international aid. Furthermore, in June 1999, the Irrigation II Project, a Structural Adjustment Credit, a Microcredit Project and supplementary financing for the ongoing Community Works Project, which supports Albanian communities most affected by the influx of refugees, were approved by the Board. The Emergency Road Repair Project (December 1999) is providing assistance in rehabilitating roads damaged by heavy traffic during the crisis. The Water Supply Urgent Rehabilitation Project (February 2000) will rehabilitate components of the water supply systems which are in a state of disrepair in the cities of Durres, Fier, Lezhe and Saranda. The Legal and Judicial Reform Project and the Public Administration Reform Project, both approved in March 2000, will help to strengthen Albania's weak institutional and governance capacity, including its ability to enforce laws and regulations. The Education Reform Project, approved in May 2000, will assist the Ministry of Education in planning and managing the delivery of education services. Further, the Financial Sector Institutional Building Technical Assistance, approved in June 2000, will assist Government in furthering the implementation of key areas of its financial sector strategy, including completion of its bank privatization program, improving financial infrastructure, and privatization of the insurance sector. In November 2000, the Bank has approved a Trade and Transport Facilitation in South East Europe project, which is part of a regional program aimed at strengthening and modernizing the customs administrations.

Statement of IDA Credits
(As of April 30, 2001)

Credit No.	Fiscal Year	Borrower	Project	US$ Million (Less Cancellations) Credits	Undisbursed
28260	1996	Albania	Power Transmission and Distribution	29.5	17
28460	1996	Albania	Forestry	8	4
28880	1996	Albania	National Roads	25	4.2
30160	1998	Albania	Recovery Program for Technical Assistance	5	0.8
30380	1998	Albania	Private Industry Recovery	10.3	5.4
30660	1998	Albania	Land Development	10	7.8
30670	1998	Albania	Health Recovery and Development	17	14.1
30680	1998	Albania	Durres Port	17	11.6
31640	1999	Albania	Community Works	14	3.4
32320	1999	Albania	Irrigation & Drainage II	24	15.5
32530	1999	Albania	Microcredit	12	8.4
33030	2000	Albania	Emergency Road Repairs	13.7	10.6
33220	2000	Albania	WS Urgent Rehabilitation	10	8.7
33270	2000	Albania	Legal/Judicial Reform	9	8
33280	2000	Albania	Public Admin Reform	8.5	7.7
33430	2000	Albania	Education Reform	12	10.7
33620	2000	Albania	Financial Sect. IBTA	6.5	5.9
34270	2001	Albania	Trade & Trans Facil in SE Eur	8.1	7.5
Total				**239.60**	**151.30**

	Active projects	Closed Projects	Total
Total Disbursed:	72.6	304.70	377.30
Of which: Repaid	0.0	0	0
Total Now Held by IDA	239.6	310.00	549.6
Total Amount Sold	0.0	0	0
Of which: Repaid	0.0	0	0
Total Undisbursed	151.3	0.30	151.6

Statement of IFC Investments
(As of March, 2001)

IFC has approved six projects in Albania of which four projects are under operations:
(i) the Patos Marinza Project for enhanced oil recovery and building of a new export pipeline. consisting of a US$68.5 million equity and loan (total project costs is $US 275.2)
(ii) an equity investment of US$1.1 million in FEFAD Bank, a microfinance bank established to lend to micro and small enterprises;
(iii) a US$2.5 million equity commitment for the privatization and restructuring of the National Commercial Bank along with the strategic partner;
(iv) a US$1.2 million loan to SEF Eurotech, a cement bagging company near the port of Durres;

Two new projects have been recently approved:
(v)a $US 15 million loan (total project costs US$61,4million) to Elbasan Cement factory for the rehabilitation and expanding of a cement production plant; and
(vi) a $US2.5 million sub guarantee loan to American Bank of Albania to support lending to SMEs.

ALBANIA: STATISTICAL ISSUES

Albania has made significant progress in improving its statistical database with extensive technical assistance, including from the Fund. The multisector statistics mission of February 1999 secured the agreement of the authorities on an action plan for each of the major statistical areas, identifying the concrete steps and timetable for improving Albania's macroeconomic statistics. The authorities have thus far made progress in implementing the action plan. The Council of Statistics has been established and its constitution and functions have been ratified. However, much still remains to be done. In particular, a system of national accounts needs to be set up.

STA has chosen Albania as a focus country for enhanced technical assistance. The multisector statistics mission in February 1999 was followed by money and banking statistics, government finance statistics, and national account statistics missions that were completed in late 1999. A resident national accounts advisor has assisted Albania's Statistical Institute (INSTAT) in establishing a compilation system for producing GDP estimates. STA also has selected Albania as a pilot country for the preparation of the data dissemination module in the Report on Observance of Standards and Codes (ROSC). The ROSC was circulated to the Executive board in June 2000. Albania participates in the General Data Dissemination System (GDDS), and a complete set of GDDS metadata for the external, financial, fiscal, and real sectors, as well as for the socio-demographic indicators is posted on the Fund's Dissemination Standards Bulletin Board (http://dsbb.imf.org). In addition, a comprehensive summary of plans for improving data compilation and dissemination across all statistical sectors (including socio-demographic sector) has been articulated.

Real sector

STA has provided considerable technical assistance to Albania on price statistics. The consumer price index (CPI) constructed by INSTAT meets international standards. It is reported regularly for publication in the Albania page in *International Financial Statistics (IFS)*. A revision of CPI weights has been initiated by INSTAT based on recent household budgetary survey. INSTAT has requested further technical assistance from STA to finalize this revision by 2001 but the process has been delayed. As regards the producer price index (PPI), four missions were conducted from 1995 through 1998. However, technical assistance from STA on the PPI was stalled during the civil disorder and has resumed since early 2000. An STA mission in May 2000 assisted INSTAT in finalizing the development of the PPI for Albania. It is expected that the official PPI will be published by end-2001, somewhat later than initially scheduled.

In the absence of official national accounts aggregates since 1990, Fund staff have relied on their own estimates during consultations with the authorities. These estimates are based on very partial data on (gross) agricultural output, activity in state industrial production, and extremely limited information on private sector activity. The STA multisector mission of February 1999 worked with INSTAT in developing a work program for the compilation of national accounts statistics.

A STA resident advisor on national accounts assisted the INSTAT from July to December 1999 to establish a compilation system for producing GDP estimates using existing and new data sources. As a result, preliminary annual GDP estimates for 1996–1998 using both the production and expenditure approaches at current and constant prices were produced during the assignment. However, these data do not include estimates for the underground economy. In addition to coverage problems, these estimates suffer from the poor quality of the source data and the lack of appropriate price indicators for deflating current price estimates. To improve basic data sources, the mission recommended changes to the design of new surveys and advised the authorities on establishing a framework within which the collaboration among government agencies involved in statistics could be institutionalized. The STA mission of January 2001 assisted the INSTAT to develop national accounts statistics in accordance with the *System of National Accounts 1993 (1993 SNA)*. The mission worked with the authorities in improving the annual GDP estimates for 1996-1999 by using the results of the recent survey and of the recently available 1999 PPI results. However, the compilation of GDP estimates continues to be hampered by weaknesses in basic data sources and incomplete coverage of the private sector. The mission also provided on-the-job training on national accounts statistics. An action plan has been agreed, which should allow the INSTAT to disseminate the first official release of the annual GDP estimates by end-January 2002.

The trade statistics missions in 1992 and 1993 improved data compilation up to international standards. However, data collection suffered extensively during the 1997 crisis as a number of customs posts were damaged or destroyed, and there was most likely a large temporary increase in the volume of unreported transactions. After some delays due to the Kosovo crisis, the compilation and dissemination of foreign trade indices has started again. Plans for improving the quality of trade statistics include the forthcoming introduction of the Automated System of Customs Data (ASYCUDA) with EU assistance.

Government finance

Albania reported fiscal data (for 1995) for the first time in 1996 for publication in the 1996 *Government Finance Statistics Yearbook* and *IFS*. In March 1998, the authorities started to publish a new quarterly bulletin of government statistics. The STA multisector statistics mission in February 1999 worked to upgrade the quality of the data reported in this publication to GFS standards and to develop a system for the regular and timely reporting of data to the Fund. Data for 1997 and 1998 have since been supplied to the Fund for inclusion in the *GFS Yearbook;* data for 1999 and 2000 have not yet been reported. Some improvement in the collection of data on disbursement of foreign loans and grants has been achieved under the technical assistance provided by UNCTAD. A foreign debt database has been established and is nearly operational, requiring only auditing for final implementation. Nonetheless, further improvements are urgently required regarding the accuracy and timeliness of information on foreign financed capital expenditures.

Monetary accounts

The existing data compilation framework conforms to the Fund's methodology, and data are compiled on a timely basis. However, the establishment of savings and credit associations (SCAs), which are not required by law to report balance sheet data to the BoA, could pose potential problems for the quality and timeliness of monetary data. The multisector statistics mission recommended that the coverage of monetary statistics be expanded to include the accounts of the SCAs as soon as data become available. Subsequently, the legal framework has been changed to permit the authorities to require reporting by the SCA.

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

Balance of payments

The data compiled by the BoA are methodologically sound, although some of the estimates needed to be refined. The BoA has established data compilation procedures based on the classification system of the fifth edition of the IMF's *Balance of Payments Manual*. The BoA reports quarterly data to STA on a regular and timely basis. In 2000, the BoA revised the methodology for the measurement of tourism services, principally through the introduction of surveys of travelers. While this should improve the measurement of tourism services, further refinements are required. More generally, problems remain in the areas of service transactions and remittances, and in the monitoring of financial account transactions, foreign assistance and external debt. These problems could be addressed by strengthening existing data sources and improving estimation methods. The Albanian authorities have not yet initiated compiling data on foreign currency liquidity in line with the Data Template on International Reserves and Foreign Currency Liquidity. While the definition of data on official reserve assets in theory is consistent with that of the Data Template, the data may not be adequate for monitoring the economy because other foreign currency assets and currency drains are not included.

Albania: Core Statistical Indicators
(as of June 29, 2001)

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Governmt. Balance	GDP/GNP	External Public Debt/Debt Service
Date of Latest Observation	June 27	June 27	End-April	End-April	End-April	June 26	May	April	Dec.	End-April.	2000	End-March
Date Received	June 28	June 28	June 5	June 5	June 5	June 27	June 8	June	April	June	April 2001	April
Frequency of Data	Daily	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Quarterly	Weekly/ Monthly	Annual	Quarterly
Frequency of Reporting	Daily	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Variable	Weekly/ Monthly	Annual	Variable
Frequency of Publication	Daily	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Monthly	Variable	Variable	Annual	--
Source of Update	BoA	BoA	BoA	BoA	BoA	BoA	INSTAT	Customs/ BoA/INSTAT	BoA	BoA/MoF	Govt. Agencies	MoF/ Donors
Mode of Reporting	Fax	Fax	E-mail	E-mail	E-mail/ Pouch	E-mail/ Pouch	Fax	Fax/ Mission	Mission	Fax	Mission	Mission
Confidentiality	UR	UR	UR	UR	UR	UR	UR	UR	UR	UR	UR	UR

List of abbreviations:

BoA: Bank of Albania
MoF: Ministry of Finance
INSTAT: Statistical Agency of the Republic of Albania
UR: Unrestricted use

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL RELATIONS DEPARTMENT

Public Information Notice (PIN) No. 01/74
FOR IMMEDIATE RELEASE
July 27, 2001

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Concludes 2001 Article IV Consultation with Albania

On July 13, 2001, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Albania.[1]

Background

Sound macroeconomic management, supported by structural reform, has characterized Albania's performance under the current PRGF arrangement, although poverty and emigration remain pervasive. Policies have resulted in a significant easing of inflationary pressures and sizable reductions in the overall and domestically financed fiscal deficits. Strong economic activity continued in 2000, with GDP growth estimated at 7¾ percent. However, electricity shortages disrupted activity during the winter of 2000–01 and continue to threaten growth prospects. The external position strengthened further during 2000, reflected in higher official exchange reserves, as a worsening of the trade balance was offset by strong inflows of remittances. The effective exchange rate, which appreciated against the euro during most of 2000, has been stable in recent months

Fiscal policy remains on track, thanks mainly to a strong revenue performance. The overall deficit (excluding grants) declined to 9.1 percent in 2000 and targets for the domestically financed deficit—at 3.2 percent of GDP—and for total tax revenues were met. Fiscal performance so far in 2001 has been in line with the budget. Improved revenue collection has largely reflected the implementation of measures agreed under the program, with reductions in corruption and smuggling. Despite the fiscal efforts of the past three years, the domestic

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. This PIN summarizes the views of the Executive Board as expressed during the July 13, 2001 Executive Board discussion based on the staff report.

component of public debt remains relatively high, although overall debt is below the average for developing countries.

Monetary policy has eased considerably since the beginning of 2000, as T-bill rates have fallen by 6–7 percentage points since the beginning of 2000. Inflation has edged up since mid-2000, mainly on account of rising energy and housing costs, but it is within the authorities' 2–4 percent target range. In mid-2000, the Bank of Albania switched to indirect instruments of monetary policy, with weekly repo auctions.

Significant progress has been made in privatization of state-owned enterprises, and much-needed reforms in the electricity sector have been initiated. The tender for privatization of the Savings Bank was announced on June 29. Privatization is moving forward in the telecommunications sector and has largely been completed in the mining sector. In agriculture, the end-December 2000 target for land registration was met. The Law on Executive Offices has been implemented and a registry for collateral property started operating in January 2001. On the other hand, delays have occurred in the submission of the revised Bankruptcy Law and the establishment of a mediation center.

Executive Board Assessment

Directors commended the authorities' sound macroeconomic management and structural reforms that have supported continued strong growth and financial stability. Directors stressed, however, the need to build on these considerable achievements with further structural reforms and improvements in governance, in order to sustain rapid growth and alleviate poverty.

Directors supported the fiscal policy framework for the remainder of 2001. They welcomed the ongoing improvements in revenue collection, supported by the authorities' efforts to strengthen tax and customs administration. They emphasized the need to broaden the tax base. Directors also underscored the need for spending restraint, especially if revenues do not meet expectations. For the medium term, Directors considered that raising revenues would continue to be a key objective of fiscal policy so as to permit the needed expansion in social expenditures, while keeping the public debt within prudent limits.

Directors commended the authorities' monetary policy. Interest rates have been significantly lowered while inflation has remained low, the exchange rate has stabilized, and official reserves have risen to a comfortable level. However, with inflation having edged up since mid-2000, Directors considered that further monetary easing was not warranted. They recommended swift action in case inflationary pressures intensified. Directors also noted that the exchange rate had appreciated in real terms in recent years and advised the authorities to monitor developments closely to forestall any adverse effects on competitiveness. Directors observed that, although progress had been made, financial integration remains low and dollarization high. The effects of reintermediation would need to be taken into account in any eventual shift to an inflation-targeting framework for monetary policy.

Directors emphasized the importance of financial sector reform. They encouraged the authorities to give the highest priority to the successful and timely privatization of the Savings

Bank and welcomed the recent announcement of a tender. They also encouraged further efforts to promote financial sector competition, to develop the banking sector in all parts of the country, to strengthen bank supervision, and to speed up implementation of the Anti-Money Laundering Law. They encouraged the authorities to implement the recommendations of the Phase One Safeguards Assessment.

Directors were concerned by problems in the energy sector, which are a potential constraint on growth and which, because of the resultant need for subsidies, are a drain on the budget. They considered the rise this year in subsidies for electricity imports only a temporary expedient, pending urgently needed and more fundamental reforms in the energy sector, including measures to revise tariffs and improve collections.

Regarding other structural reforms, Directors encouraged the authorities to persevere with their program of legal and institutional reforms to improve governance and the climate for business and investment. Enterprise privatization should be completed, including in the telecommunications and energy sectors. The legal framework for the provision of credit to the private sector should be strengthened, and a bankruptcy law adopted. Directors commended the authorities for maintaining an open trade regime and for their participation in recent initiatives toward regional free trade.

Directors welcomed progress in preparing the authorities' Growth and Poverty Reduction Strategy Paper (GPRS) through a broad-based participatory process. They observed that, despite recent progress, Albania still faces severe institutional and infrastructural weaknesses, requiring a bold reform agenda for the coming years to secure rapid growth and to reduce poverty, which is especially prevalent in rural areas. Directors noted the role that support from the international community could play in this regard.

Directors encouraged further improvements in economic data, including national accounts and price indices, and in the accuracy and timeliness of data on foreign-financed capital expenditures, which affect the monitoring of the fiscal position. They supported technical assistance in these areas.

Directors noted the progress Albania has made in regularizing relations with its creditors and encouraged all parties to work to resolve outstanding issues as soon as possible. They urged the authorities to promptly eliminate remaining exchange restrictions subject to Article XIV of the Fund's Articles of Agreement, and looked forward to Albania's intended move to Article VIII status.

Directors stressed the importance of a well-designed GPRS that identifies key expenditure priorities within the authorities Medium-Term Expenditure Framework.

Directors looked forward to discussing a successor arrangement after the Annual Meetings and emphasized the need for close coordination with the World Bank in this regard. They generally considered that, in view of Albania's economic progress, and subject to discussion with the authorities, a blend of concessional and nonconcessional resources could be appropriate under a successor arrangement.

Public Information Notices (PINs) are issued, (i) at the request of a member country, following the conclusion of the Article IV consultation for countries seeking to make known the views of the IMF to the public. This action is intended to strengthen IMF surveillance over the economic policies of member countries by increasing the transparency of the IMF's assessment of these policies; and (ii) following policy discussions in the Executive Board at the decision of the Board. The Staff report for the 2001 Article IV Consultation with Albania is also available.

Albania: Selected Economic Indicators

	1997	1998	1999	2000 Est.
		(Percent change)		
Real GDP	-7.0	8.0	7.3	7.8
Retail prices (avg.)	32.1	20.9	0.4	0.0
Retail prices (end-period)	42.1	8.7	-1.0	4.2
		(In percent of GDP)		
Fiscal sector				
Revenues	16.9	20.3	21.3	22.4
Expenditures	29.4	30.7	32.7	31.4
Overall balance	-12.6	-10.4	-11.4	-9.1
Domestically financed balance 1/	-10.5	-6.4	-5.2	-3.2
Public Debt	68.9	61.8	62.8	69.1
Domestic 2/	35.8	32.8	36.3	41.5
External	33.1	28.9	26.5	27.6
Monetary indicators				
Broad money growth (in percent)	28.5	20.7	22.3	12.0
Interest rate (3-month T-bills, end-period)	26.0	20.4	14.8	7.8
		(In millions of U.S. Dollars)		
External sector				
Trade balance 3/	-519	-621	-663	-814
(in percent of GDP)	-22.7	-20.4	-18.0	-21.7
Current account balance	-276	-187	-265	-261
Gross international reserves	306	384	485	608
(in months of imports of goods and service)	3.8	4.2	3.8	4.4
Memorandum items				
Nominal GDP (in millions of lek)	341,746	460,631	506,205	539,210
Nominal GDP (in millions of U.S. dollars)	2,284	3,046	3,676	3,745

Sources: Albanian authorities and IMF staff estimates and projections.

1/ Excluding privatization revenues.
2/ Including bonds for bank restructuring (Lek 4.3 billion for 1999; Lek 20.3 billion for 2000).
3/ For 1999 excluding imports of direct humanitarian aid related to the Kosovo crisis.