

“Fiscal policy has been hindered by weaker-than-expected revenue collection, but the deficit targets have been met. Looking forward, strong measures have been identified to broaden the tax base, improve revenue collection, and strengthen budgetary procedures. These should permit both increased expenditures on priority measures for poverty alleviation and continued fiscal consolidation. In the context of low core inflation and continued exchange rate stability, there is scope for further lowering policy interest rates.

“The steadfast implementation of structural reforms remains crucial to high private-sector led growth. Key priorities are removing administrative barriers to investment, improving governance, and fighting corruption.

“The authorities have developed a first progress report on their comprehensive National Strategy for Socio-Economic Development. This document testifies to the authorities’ commitment to their poverty reduction strategy, which continues to provide a suitable framework for the current policy program and for the support of the international community,” Ms. Krueger stated.

Statement by Pier Carlo Padoan, Executive Director for Albania
July 2, 2003

At the outset I would like, on behalf of my Albanian authorities, to express our appreciation and to thank Staff for the very fruitful consultations and for preparing a comprehensive set of documents, which provide a candid assessment of the program and the challenges ahead in the implementation of economic and structural reforms.

The Authorities broadly concur with the key findings of the reports and would like to reiterate their firm commitment to maintaining macroeconomic stability and to making further progress in speeding up structural reforms. While authorities fully recognize the importance of a stable political environment for the success of the program they feel that concerns about the consequences of the upcoming electoral period are overstated. The policy framework offered by the agreement with the Fund is widely recognized as necessary for Albania to progress in macroeconomic stabilization, to sustain growth and to reduce poverty.

The macroeconomic outlook

The macroeconomic outlook remains favorable in spite of growth deceleration, which is mainly due to an unfavorable external environment. The Authorities are aware, however, that sustained growth cannot be achieved without a significant strengthening of the business climate and the elimination of major supply constraints, especially in the energy sector.

Prudent monetary policy implementation has kept inflation under control and is making room for careful monetary easing against the background of renewed stability of the banking sector. Progress is also being achieved in monetary management, with increased reliance on market practices. Authorities are benefiting from advice by MFD and LEG.

The external position remains manageable, also given the still-satisfactory expected FDI inflows, and external debt remains sustainable. Of course, sustained FDI inflows will require continuing progress in strengthening the business environment and full implementation of the reform program.

Fiscal policy

Fiscal balances have broadly remained within the program targets. However the Authorities are fully aware that this is the result of both a weak revenue performance and of expenditure cuts, and they are taking necessary measures to strengthen tax administration and improve expenditure prioritization. Authorities are implementing the measures agreed under the program to strengthen revenue collection (which are themselves a source of additional expenditure). The expected positive outcomes, however, will take some time to materialize. This notwithstanding, revenue collection remains exposed to downside risks.

Authorities agree with staff that, given such downside risks, respecting fiscal targets will require expenditure cuts that will have to be carefully prioritized so as to protect critical items such as health care and education. A contingency plan laying out measures for the