



ALBANIA

December 2022

2022 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ALBANIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2022 Article IV consultation with Albania, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its December 7, 2022 consideration of the staff report that concluded the Article IV consultation with Albania.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on December 7, 2022, following discussions that ended on October 10, 2022, 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 November 14, 2022.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Albania.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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IMF Executive Board Concludes 2022 Article IV Consultation with Albania

FOR IMMEDIATE RELEASE

Washington, DC – December 9, 2022: On December 7, 2022, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation¹ with Albania.

Following a strong rebound in 2021, the Albanian economy has maintained positive momentum despite the shock to the global economy from Russia's war against Ukraine. Real GDP growth is expected to reach 3.7 percent in 2022, on the back of robust activity in tourism, real estate, and services. Growth is expected to decelerate to about 2 percent in 2023, reflecting tighter financial conditions, the slowdown in Europe, and the withdrawal of policy support. Driven by food and energy prices, inflation has risen and has become increasingly broad-based. Headline inflation is expected to peak in the coming months and should start receding in 2023 before returning to the central bank's target of 3 percent by mid-2024, as international commodity prices stabilize, fiscal and monetary policies tighten, and growth slows. General government debt is expected to further decline to just below 70 percent of GDP at end-2022, helped by continued economic growth and an expected smaller deficit relative to last year. Absent new shocks, it is expected to remain on a downward path, reaching about 64 percent of GDP in 2027, but gross financing needs would remain sizable. The financial system has weathered the consecutive shocks relatively well and credit flows have continued to the economy.

The outlook is subject to considerable uncertainty. Risks to growth are tilted to the downside, while those to inflation are on the upside. Further increases in food and energy prices are a key risk, especially if they trigger larger second-round effects and social unrest. Higher and more persistent inflation could further weigh on real income and weaken growth prospects. A more significant tightening in global financial conditions could hamper Albania's access to external market financing. Risks are mitigated to some degree by Albania's high level of FX reserves. The economy is also vulnerable to unfavorable weather conditions and a reversal in the rise of real estate prices. That said, risks are mitigated by Albania's adequate level of international reserves.

Executive Board Assessment²

Executive Directors commended the authorities for their decisive policy response to multiple shocks since 2019 and welcomed the continued economic recovery. Noting that risks are tilted to the downside, Directors emphasized the need for prudent policy and vigilance to ensure macroeconomic stability and address vulnerabilities, while implementing reforms to promote sustainable, inclusive, and green growth and address governance weaknesses.

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.

² 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. An explanation of any qualifiers used in summings up can be found here: <http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

Directors welcomed the authorities' plan to reach a primary balance in 2023 and stressed the need for a more ambitious medium-term fiscal consolidation, underpinned by a sound medium-term revenue strategy which should be finalized and implemented without further delay. Such efforts would help rebuild policy buffers, help reduce inflation, and facilitate external adjustment. Fiscal support to the vulnerable should be temporary and targeted, fully leveraging the existing social protection framework.

Directors called for stepped-up efforts to enhance fiscal transparency and credibility, improve public financial management, and strengthen fiscal risk monitoring and management. Public-private partnership and public investment management frameworks should be aligned and fully integrated into the budget cycle. Directors also cautioned against the proposed tax amnesty given governance and money laundering risks.

Directors encouraged the Bank of Albania (BoA) to continue its data-driven monetary policy normalization, amid continued inflationary pressures, while preserving exchange rate flexibility. They also indicated the importance of enhanced vigilance to safeguard financial stability given rapid credit growth and real estate-related activities. Directors supported the BoA's ongoing efforts to enhance financial regulation and supervision and boost capital buffers. The presence of banks with significant shareholding by individuals and non-financial groups also warrants heightened vigilance in supervision.

Directors emphasized that advancing structural reforms will be critical in unlocking Albania's growth potential and welcomed the opening of EU accession discussions which should contribute to reform progress. In this vein, Directors called for sustained progress in judicial reforms and anticorruption and stressed the importance of an expedited exit from FATF's grey list. Fighting informality would help rein in emigration pressures. Noting the macro-criticality of climate change, they stressed the need for concerted adaptation efforts within the budget framework.

Directors agreed that Albania's capacity to repay the Fund is adequate and saw no need for an extension of the Post-Financing Assessment beyond February 2023.

Albania: Selected Economic Indicators

Population: 2.9 million (2021) Per capita GDP: USD 6494 (2021)
 Life expectancy (years): 79 (2020) Literacy rate: 98.1 (2018)
 Nominal GDP (\$bn): 18.3 (2021) Poverty rate: 22 (2021)
 Quota: SDR 139.3 million (0.03 percent of total)

	2019	2020	2021	2022	2023
				<i>Proj.</i>	
Output					
Real GDP growth (%)	2.1	-3.5	8.5	3.7	2.2
Output gap (%)	-1.1	-2.9	0.7	1.1	0.0
Prices					
CPI inflation (% average)	1.4	1.6	2.0	7.0	5.4
CPI inflation (% end-period)	1.1	1.1	3.7	9.0	3.9
General government finances					
Revenues (% GDP)	27.2	25.9	27.0	27.6	27.6
Expenditures (% GDP)	29.2	32.6	31.6	30.9	30.3
Fiscal balance (% GDP) 1/	-1.9	-6.7	-4.5	-3.3	-2.7
Primary balance (% GDP)	0.1	-4.6	-2.6	-1.3	0.0
Public debt (% GDP) 2/ 3/	67.4	75.9	73.9	68.5	67.9
Money and credit					
Broad money (% change)	4.3	10.5	8.6	6.4	5.6
Credit to the private sector (% change)	6.1	8.9	8.6	9.9	5.7
Policy rate (% end-period)	1.0	0.5	0.5
Balance of payments					
Current account (% GDP)	-7.6	-8.7	-7.7	-7.8	-7.7
FDI (% GDP)	-7.5	-6.7	-6.4	-6.5	-6.5
Reserves (months of imports)	8.1	7.0	7.2	7.0	7.1
External debt (% GDP)	60.0	64.3	63.1	57.9	57.9
Exchange rate					
REER (% change)	3.6	1.2	0.8

Sources: Albanian authorities; World Bank; UNDP; and IMF Staff estimates and projections.

1/ The fiscal balance includes guarantees for new loans to the energy sector through 2019 and from 2021, and potential calls of COVID-19 related guarantees from 2022.

2/ Public debt refers to the general government and includes all public domestic and external guarantees for energy and non-energy sector debt as well as arrears from central and local government and VAT refund arrears.

3/ The 2021 SDR allocation equivalent at present to \$170 million is recorded with the Bank of Albania and is used as a credit line until 2023 and for budget financing afterwards. Accordingly, public debt and the TSA account only include the SDR allocation starting 2024.



ALBANIA

STAFF REPORT FOR THE 2022 ARTICLE IV CONSULTATION¹

November 14, 2022

KEY ISSUES

Context. Past efforts to build policy buffers and a broadly appropriate macroeconomic policy mix during 2020–21 have helped Albania withstand the impact of consecutive shocks since 2019. Growth is expected to remain solid in 2022 before decelerating in 2023, and inflation is projected to return to the central bank’s target only in 2024. There is considerable uncertainty. Risks to growth are tilted to the downside and risks to inflation are to the upside.

Policy Discussions. Although Albania’s direct exposures to Russia’s war in Ukraine are limited, with twin deficits and high government debt, Albania now faces challenges from soaring international food and energy prices, tighter global financial conditions which are likely to persist, and the economic slowdown in Europe. Prudent policy and vigilance are required to stem rising risks and sustain the still positive momentum in the economy.

- A more ambitious fiscal consolidation, underpinned by a sound Medium-Term Revenue Strategy, is vital for rebuilding room for policy maneuver, reducing demand pressures, and facilitating external adjustment. Fiscal support should be temporary and targeted to the vulnerable. Strengthening the efficiency and credibility of public finances, including public investment management and fiscal risk management, are also crucial for preserving market confidence and mitigating rising borrowing costs.
- Monetary policy should continue to raise interest rates while being nimble and data driven. Enhanced vigilance is vital to safeguard financial sector stability, as monetary conditions tighten, and the financial landscape has evolved.
- Even as Albania grapples with short-term challenges, it remains important to further advance judicial reforms, reduce corruption, improve the rule of law, and

¹ On May 7, 2021 the [IMF Board approved](#) renaming Post-Program Monitoring (PPM) to Post Financing Assessment (PFA) and adopted combined Article IV and PFA consultations (IMF Policy Paper No. 2021/026).

- strengthen the AML/CFT framework. The macrocriticality of climate change calls for concerted adaptation efforts.

Post Financing Assessment. Albania's capacity to repay the Fund remains adequate under the baseline, and risks are contained and manageable. Staff does not recommend an extension of the PFA after Albania's fund credit outstanding falls below the threshold of 200 percent of quota in February 2023.

Approved By
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and Martin Sommer
(SPR)

Discussions were held in Tirana during September 27–October 10, 2022. The team comprised Y. Sun (head), F. Jamaludin, M. Pinat (all EUR), H. Selim (FAD), and L. Spahia and A. Edwards (both local economists). R. Kadeli (IMF local office) assisted the mission. S. Eble (Regional Resident Representative) attended the concluding meeting with the authorities. N. Samuel and Z. Zhu (both EUR) assisted in the preparation of the report. L. Cerami (OED) attended some of the meetings. The mission met with Minister of Finance and Economy Ibrahimaj, Bank of Albania Governor Sejko, senior officials, parliamentarians and other representatives of political parties, development partners, and representatives of businesses and financial institutions.

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