

The contents of this document are preliminary and subject to change.

GRAY/21/3218

December 2, 2021

**Statement by Mr. Hosseini and Mr. Haleemi on Albania
(Preliminary)
Executive Board Meeting
December 6, 2021**

We thank staff for the comprehensive report and Mr. Fanizza and Ms. Cerami for their informative Buff statement.

The Covid-19 pandemic and the earthquake of 2019 took a toll on economic growth and fiscal and external balances. The decline in activity was fairly modest in 2020 but the fiscal deficit widened due to decline in revenue and increase in pandemic-related spending. Public debt increased noticeably, and the current account deficit worsened.

The authorities' swift and appropriate response in managing the adverse economic and social impacts of the pandemic is commendable. Besides health measures, income support and social protection schemes protected the vulnerable population. We are pleased to note the sharp recovery in activity in 2021 supported by rebound of tourism, agriculture, and energy sectors. While prospect for growth remains favorable, there are significant downside risks, including emergence of new variants of the virus, slower than expected vaccination rollout, and tightened global financial conditions. We broadly agree with the staff's assessment in the report and would like to provide the following remarks.

As economic recovery is firming up, the focus of fiscal policy should pivot towards growth-friendly and more targeted spending, as well as revenue mobilization. While acknowledging authorities' commitment to fiscal consolidation in the medium-term, we agree with the staff's assessment on the need to create fiscal buffers to be utilized in the event of future shocks. Moreover, the authorities' plan for a Medium-Term Revenue Strategy (MTRS) to underpin revenue mobilization is a welcome step. The MTRS, that would require the support of all stakeholders, should provide the framework for tax reforms. On the expenditure side, improved targeting and close vetting of investment projects would be warranted.

Public-Private Partnerships (PPPs), particularly those involving state-owned enterprises, carry considerable fiscal risks that should be carefully accounted for and PPP projects should be aligned with the budget process. We also support staff's assessment of the need to address shortcomings in public investment management before undertaking any major capital projects. We take positive note of the authorities' commitment to enhance accountability and transparency in public spending by publishing crisis-related expenditure and beneficiary ownership of the procurement contracts.

Notwithstanding the strong economic recovery in train, monetary policy should remain accommodative in the short-term while closely monitoring inflationary pressures. In addition, we commend the authorities for showing commitment to a flexible exchange rate regime as shock absorber and to de-euroization of the economy. *Could staff elaborate on policies in recent years to reduce the role of foreign currencies in the economy?*

Financial sector has proved resilient during the pandemic, and the banking system is liquid and well-capitalized. However, given the emergence of new challenges, such as virtual assets, continuous supervisory and regulatory vigilance is advisable.

We agree with the staff's assessment that corruption and weaknesses of judiciary are major obstacles to long-term economic development in Albania. We take note of the authorities' fight against corruption and support their efforts to further strengthen and reform judicial system in line with international best practices, with the support of development partners. Moreover, efforts should also be made to strengthen AML/CFT framework in line with Financial Action Task Force (FATF) standards and exit the grey-list.

With this, we wish the Albanian authorities and people every success in their endeavors.