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December 2, 2021

**Statement by Mr. Mohieldin, Mr. Alhosani, and Mr. Al-Kohlany on Albania
(Preliminary)
Executive Board Meeting
December 6, 2021**

We thank the staff for the comprehensive report and Mr. Fanizza and Ms. Cerami for their Buff statements. We are in broad agreement with the staff's appraisal and policy recommendations and would like to limit our comments to the following:

- 1- Fiscal policy played a critical role in preserving lives and livelihoods and paving the way for the recovery. We support the prioritization of rebuilding policy buffers, while pursuing a gradual medium-term fiscal consolidation. In this regard, fiscal support needs to better target those most in need to ensure an inclusive recovery. Sustained measures are needed to broaden the tax base within a creditable revenue-based medium-term adjustment plan, with the aim of achieving the desired fiscal adjustment in line with the authorities' fiscal anchor under the organic budget law. Here we welcome the authorities' commitment, set in the Buff Statement by Mr. Fanizza and Ms. Cerami, to bringing the primary balance into equilibrium by 2024 and keeping it unchanged thereafter, with the goal of placing public debt to GDP on a steady downward path.
- 2- We support the authorities' initiatives to strengthen public investment management and their commitment to the implementation of the PIMA recommendations. Additional actions are needed to strengthen fiscal governance, modernize public procurement, and improve spending efficiency. Here we welcome the establishment of the public registry of beneficial ownership and the publication of the Supreme Audit Institution's audits of reconstruction and pandemic related spending. We also support staff recommendations to further improve fiscal transparency, including for

investments under the PPP framework. *Could staff elaborate on the contingent liabilities arising from the state-owned enterprises (water and power) and the fiscal risks associated with PPPs, and on the steps needed to manage these risks?*

- 3- The banking sector is adequately capitalized and liquid, nonetheless, we support staff recommendation for continued vigilance over the financial sector. We encourage the authorities to strengthen the supervisory framework to ensure early detection of any buildup of vulnerabilities. We note staff's assessment that regulatory relief and other forbearance measures have ended without adverse effects on bank credit flows and performance, however the high share of loan restructuring could give persistent rise to NPLs. To this end, we welcome staff's assessment in Annex VII of the dynamics of NPLs. We note that the growing non-bank financial sector remains relatively small and comprises mainly of investment funds. *Could staff provide additional information on the financial interconnectedness with the banking sector and their assessment of the regulatory and supervisory framework governing the non-bank financial sector?*
- 4- Structural reforms are needed to address structural impediments to inclusive growth and boost productivity. Here we welcome the authorities' commitment to build on the good progress made in advancing their structural reform agenda, with focus on completing the judicial reform, strengthening the anticorruption and the AML/CFT frameworks, and improving the business conditions.

With these remarks, we wish the authorities further success.