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ATTENTION**

EBS/92/183

CONFIDENTIAL

November 19, 1992

To: Members of the Executive Board
From: The Secretary
Subject: Albania - Review of the Financing of the Program

It is not proposed to bring the attached memorandum to the agenda of the Executive Board for discussion unless an Executive Director so requests by the close of business on Wednesday, December 2, 1992. In the absence of such a request, the draft decision that appears on page 2 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

Mr. Singh (ext. 36222) or Mr. Rodlauer (ext. 38415) is available to answer technical or factual questions relating to this paper.

Att: (1)

Other Distribution:
Department Heads

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INTERNATIONAL MONETARY FUND

ALBANIA

Review of the Financing of the Program

Prepared by the European I and Policy
Review and Development Departments

(In consultation with the Fiscal Affairs
and Legal Departments)

Approved by J.R. Artus and Joaquin Ferrán

November 19, 1992

Under the 12-month stand-by arrangement approved on August 26, 1992, Albania's right to make a second purchase, for an amount equivalent to SDR 3.4375 million (13.75 percent of quota), is subject inter alia to the observance of the performance criteria for end-September 1992 and the completion of the first review on the financing of the program. Based on information recently provided by the Albanian authorities, all performance criteria for end-September 1992 have been observed. Significantly, the budget deficit during the third quarter of 1992 was below the program, reflecting mainly lower expenditures which more than offset shortfalls in counterpart food aid and excise tax receipts. Nevertheless, the program is being implemented in an increasingly difficult environment, reflecting mainly severe problems in the enterprise sector; after the halt of unchecked budgetary and credit support, there has been a large increase of enterprise arrears. The authorities, in close consultation with the Fund and the World Bank staff, are considering early measures to deal with these difficulties. A full assessment of the economic situation will be made by a forthcoming mission to conduct the mid-term review of the program.

Concerning the external financing of the program, food and commodity aid shipments, after some initial delays, are expected to reach about US\$210 million for the second half of 1992, or about US\$70 million less than programmed. This shortfall reflects lower food aid shipments, which are expected to reach about two thirds of the level originally requested by the authorities. However, with some improvement in private supplies already evident, this could be sufficient--together with commitments covering the first few months of 1993--to ensure essential supplies at minimum acceptable levels through the winter. ^{1/} Regarding balance of payments support, arrangements are being finalized for disbursement of the first tranche (ECU 35 million) of a grant from the European Communities (EC), and part of

^{1/} The shortfall, however, was partly responsible for the lower than programmed counterpart receipts in the budget.

the support pledged by other G-24 members (about US\$4 million of the US\$18 million committed to date) is expected to materialize before the end of the year. A small shortfall in World Bank financing for the period results from delays in initiating the critical imports project. Some of these shortfalls have been partly compensated by larger than expected private transfers. As a result, the staff is satisfied that the financing requirement for the first half of the program period has been covered.

Some progress has also been made toward a solution of Albania's external arrears to commercial banks: at a recent meeting with the authorities, commercial banks expressed a desire to find a comprehensive, negotiated solution encompassing all categories of overdue obligations, including those related to spot and money market defaults. Another meeting is scheduled for December. 1/

For the first half of 1993, existing aid commitments total about US\$95 million. 2/ Given the highly uncertain outlook for food supply and consumption, the authorities and the donor community, especially the EC, are keeping food import needs under close review in order to assure adequate supplies. Balance of payments support committed so far totals US\$70 million, including the second tranche of the EC grant (ECU 35 million) which could come in early 1993. While a residual financing gap of about US\$30 million remains for the second half of the program period, further progress toward closure of this gap is expected by the first program review.

Proposed Decision

The following draft decision is proposed for adoption by the Executive Board:

The Fund decides that the first review on the financing of the program contemplated in paragraph 4 (c) of the stand-by arrangement for Albania (EBS/92/121) is completed.

1/ The program assumed payments of interest and charges on overdue commercial obligations of US\$15 million should a concerted resolution of the arrears problem be possible. The performance criterion on net foreign assets includes a clause for automatic upward adjustment (up to US\$15 million) in the absence of payments to commercial banks. Since no such payments are likely in 1992, the reserve target for end-December will be adjusted accordingly.

2/ This does not include the EC's 1993 aid program, which is under preparation.

Table 1. Albania: Summary Balance of Payments, 1992-93

(In millions of US dollars)

	1992					1993	
	First half	Second half	Year		First half	Year 1/	
	Revised Est.	Program 1/ Proj.	Program 1/ Proj.	Program 1/ Proj.	Program	Program	
Current account (excl. off. transfers)	-189	-343	-258	-529	-447	-262	-446
Trade balance	-171	-292	-225	-451	-396	-220	-381
Exports	28	37	32	65	60	37	79
Imports	199	329	257	517	456	257	459
Food	132	152	98	282	230	107	178
Other 2/	67	177	159	235	226	150	281
Services (net)	-30	-56	-56	-86	-86	-42	-77
Of which: Interest	-11	-19	-19	-30	-30	-18	-36
Private transfers	12	5	23	8	35	--	12
Direct investment	--	--	--	--	--	5	10
Other Capital	--	-17	-9	-17	-9	-4	-8
Gross reserve change (increase: -)	-5	-18	-33	-19	-38	-23	-43
Changes in arrears (increase: +) 3/	16	-409	15	-394	31	-432	-432
Other	5	--	--	5	5	--	--
<u>Financing requirement</u>	<u>-173</u>	<u>-788</u>	<u>-285</u>	<u>-954</u>	<u>-458</u>	<u>-716</u>	<u>-918</u>
Debt service deferral/refinancing (banks) 3/	--	409	--	409	--	432	432
<u>Remaining gap</u>	<u>-173</u>	<u>-379</u>	<u>-285</u>	<u>-545</u>	<u>-458</u>	<u>-284</u>	<u>-486</u>
Fund	--	14	14	14	14	14	24
Credit Tranches	--	14	14	14	14	10	14
Other	--	--	--	--	--	5	9
World Bank	--	13	5	13	5	20	40
EBRD/ Other	--	4	6	4	6	5	10
EC/G-24 food and essential aid (identifed)	173	213	210	380	383	95	143
Community	54	125	120	185	174	58	58
Bilateral	119	88	90	195	209	37	85
Additional food aid requested (gap)	--	70	--	70	--	50	110
EC/G-24 Balance of payments support	--	65	50	65	50	100	160
Of which: committed	--	44	50	44	50	70	70
Residual gap	--	21	--	21	--	30	90

Sources: Data provided by the Albanian authorities; and staff estimates.

1/ As presented in EBS/92/121.

2/ About half represents specified raw materials and intermediate goods associated with foreign financing.

3/ Assumes refinancing of overdue payments to banks in the first half of 1993, which was expected to occur in the second half of 1992.

