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**Statement by Mr. Lischinsky and Mr. Corvalan Mendoza on Albania
(Preliminary)
Executive Board Meeting
November 23, 2020**

We thank staff for the first Post-Program Monitoring report on Albania and Mr. Fanizza and Mr. Persico for their comprehensive Buff statement.

We take positive note of the authorities' commitment to maintain macroeconomic and financial stability, despite two sizeable negative shocks that hit the country. The first was an earthquake in November 2019 and, by March 2020, the second shock materialized with the Covid-19 pandemic. The combination of these external and unanticipated events hurt tourism, remittances flows, external demand, and FDI. Nevertheless, swift responses from the authorities to address health system requirements, protect employment, and take care of most vulnerable population are welcome steps, which are well explained in Annex I of the report.

The policy responses have put a strain on the fiscal, financial, and monetary sectors, which might temporarily disrupt Albania's efforts to tackle elevated public debt (82 percent of GDP by the end of this year), manage fiscal risks, and curve a relatively high level of non-performing loans in the financial market. For the latter, decisive policy actions of the central bank, added to the ample international reserves and flexible exchange rate mechanism in place, are appropriate to cushion the shocks and should remain in the future as the first line of defense of the economy. We also take positive note from the Buff statement that "[w]hile the crisis impact on the bank balance sheets' is yet to be fully materialized, the BoA stress-tests indicate the banking sector is robust enough to withstand its impact". In this regard, it is encouraging to know that on- and off-site supervision of the banking sector, in compliance with its risk-based approach, is being implemented by the central bank.

On the fiscal front, emphasis on revenue-based consolidation will remain critical. We encourage the authorities to renew their efforts to address structural weaknesses in public finances. To sustain the higher spending needs of the population and the economy, a Medium-Term Revenue Strategy (MTRS) might be needed much sooner rather than later.

Assuming the base line scenario materializes, and recovery takes hold from 2021 onwards, room for fiscal policy maneuver will be needed. The MTRS will prove handy for the authorities to minimize the increasing fiscal risks in the medium term. For instance, public investment management and the quality of public spending need strengthening to contain PPPs and recent government guarantee liabilities, as well as avoiding new arrears going forward. The latter affects investor confidence in the private sector's normal functioning.

We take positive note of the ability of the country to access international financial markets to finance its urgent needs. We also observe as a positive outcome in the continuous progress towards EU integration and, *we would like to hear more details from staff on the BoA's repo line with the ECB for 400 million euros.*

With these comments, we wish the people of Albania every success in their future endeavors in this challenging time.