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November 19, 2020

Statement by Ms. Shortino, Mr. Farber, and Ms. Lyngaas on Albania
(Preliminary)
Executive Board Meeting
November 23, 2020

We thank staff for this comprehensive and timely report and Mr. Fanizza and Mr. Persico for their help Buff statement. Albania continues to be severely affected by the aftermath of the November 2019 earthquake and the COVID-19 pandemic. We commend the authorities for taking decisive measures to tackle these twin shocks. The RFI disbursement helped free up resources to tackle these concurrent crises; foreign reserves have increased, and the exchange rate has remained broadly stable. **We encourage the authorities to pursue additional reform measures supported by a follow-on Upper Credit Tranche-quality program.**

Fiscal policy and expenditure efficiency. We agree that the sizeable increase in the fiscal deficit – from 2 percent of GDP in 2019 to a projected 6.8 percent in 2020 – is warranted to cushion the impact of shocks. However, we note that there will be a significant decline in revenue projected over this period, while total expenditures remain under-executed compared to the budget. We urge the authorities to create the fiscal space required for supporting essential activities and protecting the most vulnerable by containing non-priority spending and improving expenditure efficiency. In this regard, we support staff's view that short-cuts implemented to public financial management as part of the emergency response should be reversed and reconstruction funds should be subject to adequate controls. Public investment management and governance reforms should also be prioritized, and we are concerned that staff note a reform slowdown. *Can staff comment on why earthquake reconstruction spending has only reached 8% of the budgeted annual amount as of September?*

Debt and risks. Staff projections on public debt appear to be supported by somewhat optimistic medium-term growth assumptions. We are also concerned that public-private partnerships (PPPs) were excluded from public debt estimates in the DSA, and that information on risks stemming from government guarantees and state-owned enterprise (SOE) debt were not adequately addressed in this report. Given the rollover risks emanating from the short maturity of domestic public debt, we encourage the debt management authorities to engage with staff on potential operations to lengthen average maturities. *We would welcome staff comment on the scale of below-the-line public debt and its impact on DSA assumptions. Could staff also provide more information on what will underpin the 12-percentage point decline in public debt projected between 2020 and 2025?*

Financial sector. We encourage staff and the authorities to continue to monitor risks to the banking system, given the exceptionally large shocks. *We would welcome an update from staff on what measures the authorities are working on with respect to NPL resolution.*