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November 19, 2020

**Statement by Mr. Chikada and Mr. Shimada on Albania
(Preliminary)
Executive Board Meeting
November 23, 2020**

We thank staff for the first Post-Program Monitoring (PPM) report on Albania and Mr. Mr. Fanizza and Mr. Persico for their insightful Buff statement. Albania has been hit by dual shocks, the earthquake in 2019 followed by the COVID-19 pandemic. We commend the authorities' swift policy actions to mitigate economic impact from the shocks and welcome that the Fund's emergency financing has catalyzed other donor financings. As the crisis abates, the authorities should accelerate the long-standing reforms, especially in the area of public financial management (PFM), to concurrently and prudently address the increased public debt and the necessity for capital investments. As we broadly agree with staff appraisals, we will provide the following comments for emphasis.

We take a positive note of Albania's resilience to the dual shocks, however, high uncertainty and downside risks due to the pandemic warrant vigilance and contingency planning. The country's sizeable reserve coverage and flexible exchange rate remain important shock absorbers, and it is encouraging that Albania continues to tap international markets and the recent established repo line between the ECB and the Bank of Albania (BOA) would anchor the market confidence in the country. However, the increased public debt would warrant due attention considering the country's weak PFM. We also note that the country may need to seek additional Fund's support to fill the financing gap going forward, should the recovery stagnate, as shown in an illustrative adverse scenario in Annex III.

As the pandemic abates, PFM should be strengthened to concurrently and prudently address the increased public debt and the necessity for capital investments. Given the increased public debt, it is important for the authorities to increase revenue while warranting

essential capital expenditures, given the huge infrastructure gap in the country. In this regard, we concur with staff on the importance to complete, adopt, and start implementing a sound Medium-Term Revenue Strategy (MTRS) in 2021. For steady implementation of MRTS, we see it essential for the authorities to improve their institutional capacity. *Could staff elaborate the role of the Fund's as well as other development partners' capacity development in these areas?* Regarding transparency and accountability of fiscal expenditure, we welcome that the Supreme Audit Institution plans to conduct and publish an audit of earthquake- and pandemic-related spending in 2021, and we expect that the result of audit will be discussed in the next PPM.

Financial sectors warrant closer monitoring to prevent macro-financial feedback loops.

We positively note that the banking sector is well capitalized, and the BOA has injected ample liquidity to the banking system to mitigate the economic impact. However, the NPLs ratio is still high compared with peer countries, and the banks' asset quality could deteriorate further, considering the concentration of credit exposure to the service sector, which the pandemic has severely hit. In this regard, we have concern that some regulatory forbearance measures, notably the relaxation of loan classification and provisioning rules, would veil the reality of banking sector. We therefore urge the authorities to limit such measures be literally temporary, and to monitor the situation closely.