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November 19, 2020

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

We thank staff for the informative report and Mr. Fanizza and Mr. Persico for their helpful Buff statement. Albania experienced a set of shocks related first to the 2019 earthquake and later the COVID-19 pandemic that resulted in a further deterioration of growth prospects, as well as threatened macroeconomic and financial stability. Considering the increasing chance of a second wave of infections, the outlook is subject to major uncertainties and risks are tilted to the downside. We welcome the authorities' prompt response to the shocks and offer the following comments for emphasis.

We acknowledge that the main challenges lie in public finance. The original 2020 budget has been revised several times to include earthquake reconstruction, additional healthcare spending and support for affected businesses and households. However, the shocks revealed structural weaknesses, especially on the fiscal side. The existing small fiscal space limited the volume and scope of the support package for affected business and individuals. We agree with staff's view that non-priority spending needs to be limited to make room for adequate health care provision and social protection for the most vulnerable. In this regard, we encourage the authorities to consider revenue-based fiscal consolidation once the pandemic abates. While we welcome the authorities' work on the Medium-Term Revenue Strategy, *we would appreciate staff's comment on the precise timeline for the adoption of the MTRS.*

Increasing fiscal risks need to be duly managed and public investment management strengthened. We emphasize the increasing fiscal risks arising from public investment and the Public Private Partnerships (PPP). In this context, we urge the authorities to address existing weaknesses in public investment management with a view to improve the quality of capital spending. More specifically, designing an effective public investment management cycle would be paramount. *Could staff comment on whether the authorities considered conducting a PIMA in the current context?* In addition, monitoring of government guarantees

and risks stemming from SOEs would be important. We welcome the commitment of the Albanian Supreme State Audit Institution (ALSAI) to take a more prominent role in the process of PPP oversight.

We welcome the prompt response of the BOA to alleviate the impact of the shocks to the financial sector. We take good note of the resiliency of the Albanian banking sector. Going forward, we encourage the authorities to closely monitor the existing vulnerabilities given the already high level of NPLs compared to regional peers and the likelihood of their further increase. We agree with staff that a near-term priority would be to closely monitor and guide banks' restructuring of credit portfolios. *In this context, it would be interesting to hear from staff how they assess the efficiency of the insolvency framework in Albania.* We commend the BOA for the accommodative monetary stance and regulatory measures enacted to ensure liquidity in the financial sector following the shocks. We also commend the authorities for strengthening the BOA's capacity for monetary policy formulation, supervision and financial stability monitoring. We encourage staff to work closely with the authorities in improving further the BOA's regulatory and supervisory framework, including with respect to responding to new challenges amidst the current uncertainty.