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**Statement by Mr. Buissé, Mr. Rozan, and Mr. Roman on Albania
(Preliminary)
Executive Board Meeting
November 23, 2020**

We thank staff for the excellent paper and Mr. Fanizza and Mr. Persico for their insightful buff statement. We broadly share the thrust of the staff appraisal and wish to make the following remarks for emphasis.

Albania has been faced with two large scale exogenous shocks in a very short period of time, an earthquake and the pandemic, that severely affected the economic outlook. GDP growth in 2020 has been revised down by about 11 percentage points relative to the pre-earthquake baseline scenario, to -7.5 percent. The authorities have shown responsiveness in coping with the consequences of these shocks, and we commend their reconstruction efforts after the 2019 earthquake, as well as their actions to strengthen medical care and support households and businesses in the context of the Covid-19 outbreak. In this difficult context, the authorities have managed to maintain macroeconomic and financial stability. However, the crisis has put a strain on the budget with the deficit expected to rise in 2020 (-8.4%), at the time where debt and fiscal risks were already a concern prior to the shocks. As the crisis abates, the authorities will have to implement a medium-term fiscal strategy to reduce fiscal risks and enhance revenue mobilization.

While on the short term, the use of fiscal policy is warranted to protect the economy, there will be a need for a medium term fiscal strategy, in order to balance Albania's development gaps with the need to rebuild room for fiscal policy maneuver and limit external pressures. In the short run, the policy package to support firms and people appears adequate. As risks are on the downside, we concur with staff that authorities should work on contingency measures, and we welcome the attention dedicated to this topic in the report. We support the efforts of the authorities to ensure transparency, accountability, and adequate PFM controls in their emergency spending, and welcome in this regard the Supreme Audit Institution's plan to conduct and publish an audit of earthquake- and pandemic-related spending in 2021. **Given the existing large debt stock, as well as**

the significant fiscal risks highlighted in the report, the authorities should work on a strategy to reach their primary fiscal balance in 2023, so as to return to a downward debt trajectory and to generate buffers for future shocks. Working on this now would help give more predictability to households and companies. In this regard, we concur with staff on the importance of completing and start implementing a sound medium-term revenue strategy. We encourage the authorities to contain non-priority spending and to improve spending efficiency. We underline the importance to strengthen public investment management and governance and transparency of PPPs, and to upgrade the capacity of the Ministry of Finance to do so.

External financing requirements remain large, at 22.5% of GDP in 2019, and subject to currency risks, and the current account is expected to widen considerably this year. We note that the financing gap that existed at the time of the RFI request last April has since been covered thanks to the RFI disbursement and a Eurobond issuance of €650 million. The recently established a repo line of €400 million with the ECB should further enhance market confidence. We encourage the authorities to look for the best market conditions for the expected issuance of new Eurobonds, in a context where sovereign spreads that jumped after the outbreak have not yet come back to their pre-crisis level. Clearly outlining a policy path, in particular on the fiscal side, should help ensure successful Eurobond issuance. Working on de-euroization of the economy should also remain a priority in this context.

We encourage the Central Bank to continue monitoring closely the financial sector. The banking system remains liquid and stable. However, going forward, banks' balance sheet should be carefully analyzed, as the fallout of the crisis on corporates' solvency and liquidity start to materialize. Prudent bank loan restructuring should be conducted with adequate BoA guidance. We underline the importance of returning to the normal rules on loan classification and provisioning in this regard. In view of the likely surge in NPLs, we encourage the authorities to swiftly and credibly operationalize and enforce the insolvency and resolution framework. We concur with staff that restrictions on bank dividend distributions should be retained until banks' capital position is assessed to be sufficient to absorb the losses from the shocks.

Efforts to strengthen the AML/CFT framework should continue and tax amnesty schemes should be avoided. As Albania was listed by the FATF in February 2020 as a country with strategic AML/CFT deficiencies, it is important to continue to effectively address the shortcomings identified by FATF and MONEYVAL without delay. We welcome the indication by the authorities that they will not pass the tax amnesty law until concerns expressed by domestic stakeholders and the international community are addressed.