

The contents of this document are preliminary and subject to change.

GRAY/20/3440

November 19, 2020

**Statement by Mr. Mohieldin and Ms. Al-Riffai on Albania
(Preliminary)
Executive Board Meeting
November 23, 2020**

We thank staff for their report and Messrs. Fanizza and Persico on their informative Buff statement. Albania has been hit by twin shocks, the strongest earthquake in forty years on November 26 of 2019, which caused damage to an estimated 7 percent of GDP, and the COVID pandemic. The authorities are rightly focusing their efforts on protecting lives and livelihoods as well as on continuing to rebuild after the devastating effects of the earthquake. However, the recent shocks are straining public finances and the balance of payments and limiting capacity to proceed with planned reforms. We broadly concur with staff's appraisal and offer the following points for focus.

The fiscal deficit has understandably increased on the back of the recent twin shocks which necessitated elevated spending on covid-related spending as well as reconstruction. Financing the budget will require a drawdown of the government's deposits and using some of the excess reserves of the public health and pension funds, which would greatly reduce the already limited liquidity buffers. We therefore see merit in staff's advice to contain nonpriority spending to optimize spending on health care, social protection, capital spending, and building up liquidity buffers for contingencies. To that end, addressing the structural weaknesses in public finance are of importance. That includes, strengthening public investment management and the quality of public spending, containing and managing elevated fiscal risks, including from PPPs and the recent government guarantees, and avoiding new arrears. Furthermore, though capacity is understandably constrained in the near term, we encourage the authorities to continue with the adoption of a medium-term revenue strategy to generate the resources needed to achieve Albania's sustainable development goals and ensure debt sustainability. *Can staff shed light on the rationale behind permanently removing the profit tax for businesses with annual turnovers up to Lek14 million?* We encourage strengthening the AML/CFT framework and avoiding tax amnesty schemes and the overall improvement of the efficiency of the tax system. *Can staff provide some background on the Albania Investment Corporation (AIC) and why they view that once operational, it would bring about new fiscal risks?* We welcome that the authorities intend to

resume their fiscal consolidation efforts once the crisis subsides and the reconstruction needs are addressed. The recent amendment to the fiscal rules requiring a primary balance of at least zero from 2023 onward is welcome. However, given the uncertainty around the pandemic and the pace of economic recovery, we see a need for contingency planning and welcome the authorities' willingness to take additional actions if need be.

Monetary policy stance has appropriately eased and is complemented by targeted macro-prudential stimulus. The banking sector is sound, liquid and well-capitalized and we are reassured that improved asset quality and capital buffers in recent years have reinforced the loss absorption capacity of the banking sector. Furthermore, the Bank of Albania has taken strides in aligning the regulatory framework with international standards and has adopted more intensive supervision. We thank staff for the chapter detailing the recent development in financial regulations and encourage the authorities to maintain their vigilance over the sector considering the elevated uncertainties still present around the timing and pace of the economic recovery. We take note from the Buff statement that should the monetary authorities consider deploying unconventional instruments, they will involve Fund staff in consultation.

We wish the authorities well in overcoming the pandemic and in their plans and progress towards EU integration.