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November 19, 2020

**Statement by Mr. White and Mr. Tui Siliva on Albania
(Preliminary)
Executive Board Meeting
November 23, 2020**

We thank staff for the informative report and Mr. Fanizza and Mr. Persico for the helpful Buff statement. We note the twin shocks – earthquake and pandemic – that have heavily impacted Albania and we commend the authorities for maintaining macroeconomic and financial stability in the face of these challenges. We note staff’s assessment that Albania’s capacity to repay the Fund is adequate in the baseline scenario, and that foreign reserves are adequate in the medium term. However, we remain concerned about the risks from weaknesses in public finances, including elevated public debt and large gross financing needs. Further efforts to mitigate these risks and vulnerabilities are needed, including reforms supportive of broader economy rebuilding. We broadly agree with staff’s analysis and offer the following comments for emphasis.

Continued PFM reforms and adequate controls are important to strengthen fiscal discipline. We note the ongoing preparation of the Medium-Term Revenue Strategy to review and redesign the tax system, and encourage staff to collaborate with the authorities to ensure the timely and successful finalization of this initiative which is central to the fiscal strategy. Higher revenues together with expenditure controls, particularly on capital, will create space for adequate health and social spending, a buffer for contingencies and support the reduction of public debt. Reforms in cash management and lengthening of debt maturities are also important. Strengthening public investment management particularly in respect of PPPs, the use of government guarantees and SOE performance will further support the balance sheet.

Monitoring of financial sector vulnerabilities should be further strengthened. The staff report anticipates a surge in NPLs that will impact the banking sector though the authorities expect this to be manageable. To protect against this, we encourage staff to continue to work with authorities on the resolution framework. As balance sheet impacts may take some time

to emerge, the restriction on dividend distributions remains prudent and the BOA should strengthen supervision through greater use of onsite inspections. Ongoing efforts to strengthen the AML/CFT framework need to continue.

The nature of the pandemic warrants contingency planning. We note the authorities' readiness to take further measures as needed to preserve macroeconomic stability. Given the uncertainty associated with the pandemic, and with the elevated debt levels, we support staff's emphasis on the importance of contingency planning that focuses on health care provision, protecting the most vulnerable, financing options, and financial stability.