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

We thank staff for the comprehensive report and Mr. Fanizza and Mr. Persico for their informative buff statement. The COVID-19 pandemic hit the Albanian economy when it had not fully recovered from the November 2019 earthquake. In these challenging circumstances the authorities have responded promptly to secure macroeconomic and financial stability while protecting lives. According to staff, Albania's outlook is subject to major uncertainty with rising downside risks as the second wave of the pandemic is spreading across Europe. These risks are exacerbated by the country's long-standing governance vulnerabilities, shrinking fiscal space, and growing share of non-performing loans. The Albanian authorities need to adopt an ambitious reform agenda. In order to address the country's structural constraints to growth, steady and credible implementation of reforms is necessary during the recovery phase.

The authorities have responded to the shocks with an appropriate mix of monetary policy easing and fiscal stimulus. The Bank of Albania had cut policy rate to 0.5%, which makes further monetary accommodation challenging. In the beginning of 2020, the authorities had focused on earthquake reconstruction spending. However, when the COVID-19 pandemic hit the economy, government spending was increased to ramp up health care measures and to support businesses and households. Flexible exchange rate of *the lek* continues to play an important role as a shock absorber, while targeted FX interventions ensure smooth adjustments. The international reserves are projected to stay at a comfortable level of 165 percent of ARA metric at end-2020. The recently established repo line between the ECB and the BOA would help to provide additional support to the country. The April RFI disbursement from the Fund also played an important catalytic role, attracting support from other IFIs.

Fiscal consolidation would be necessary in the medium term to put public debt on a sustainable path. We welcome the Albanian authorities' commitment to fiscal transparency and take positive note of their plans to conduct and publish an audit of earthquake and pandemic-related spending in 2021. During the recovery phase the adoption and implementation of a sound Medium-Term Revenue Strategy should be among the authorities' key priorities. Such a strategy would help with revenue mobilization and, hence, public debt sustainability.

There is an urgent need to address weaknesses in economic governance and institutions.

In February 2020, Albania was included by the FATF in its grey list, which means that the country had strategic AML/CFT deficiencies. We concur with staff that the proposed tax amnesty law should only be enacted after addressing the governance vulnerabilities and money laundering risks. *Are there any plans for technical assistance from the Fund on the AML/CFT framework?*

With these remarks, we wish the authorities all the success.