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ALBANIA

January 2025

2024 ARTICLE IV CONSULTATION—PRESS RELEASE; STAFF REPORT; AND STATEMENT BY THE EXECUTIVE DIRECTOR FOR ALBANIA

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2024 Article IV consultation with Albania, the following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its January 17, 2025, consideration of the staff report that concluded the Article IV consultation with Albania.
- The **Staff Report** prepared by a staff team of the IMF for the Executive Board's consideration on January 17, 2025, following discussions that ended on November 21, 2024, with the officials of Albania on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on December 17, 2024.
- An **Informational Annex** prepared by the IMF staff.
- A **Statement by the Executive Director** for Albania.

The documents listed below have been or will be separately released.

Selected Issues

The IMF's transparency policy allows for the deletion of market-sensitive information and premature disclosure of the authorities' policy intentions in published staff reports and other documents.

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PRESS RELEASE

PR25/016

IMF Executive Board Concludes 2024 Article IV Consultation with Albania

FOR IMMEDIATE RELEASE

Washington, DC – January 27, 2025: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation[1] with Albania on January 17, 2025.

The Albanian economy has turned in a strong performance in recent years, underpinned by prudent macroeconomic policies. Output is now well above its pre-pandemic trend thanks to a booming tourism sector. Prudent fiscal policies contributed to a remarkable reduction in public debt while proactive monetary policy, falling global commodity prices, and lek appreciation have facilitated disinflation. External imbalances have shrunk considerably.

Growth prospects are expected to remain robust. Following an expansion of 3.9 percent in 2023, real GDP growth is projected to average around 3½ percent in 2024–2029, driven by domestic consumption, tourism, and construction activity. End-of-year inflation in 2024 is expected at around 2 percent, below the Bank of Albania's (BoA) 3 percent target. Although base effects from a significant month-on-month drop in early 2024 will temporarily push up inflation in the first half of 2025, a sustained return to target is not expected before 2026, given the high degree of inertia in the inflation process in Albania.

The authorities are expected to outperform their 2024 budget target. With revenues on track, thanks to the favorable conjuncture, and capital spending execution lagging, the primary surplus is projected at around 0.5 percent of GDP in 2024, marginally higher than the 0.3 percent of GDP budget target. The 2025 budget aims for a zero primary balance. The public debt ratio, expected at around 56 percent at end-2024, is expected to decline to around 50 percent in 2029 and is assessed to be sustainable over the medium-term.

Systemic vulnerabilities in the financial system appear broadly contained. The banking sector remains well-capitalized and liquid with average prudential ratios well above regulatory requirements. However, banks' large-borrower and sovereign exposures represent sources of risk, as does the rapid expansion of banks' lending to the real estate sector, which has seen continued price increases and accounts for two-thirds of unhedged FX loans.

Notwithstanding the upbeat macroeconomic picture, considerable structural challenges remain. GDP per capita stands at just around a quarter of the U.S. and EU-15 levels, amid rapid aging and emigration. Wide-ranging reforms, including to enhance governance and public financial management frameworks, boost human capital and productivity, are needed to catalyze lasting higher growth and convergence.

[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

Executive Board Assessment[2]

Executive Directors agreed with the thrust of the staff appraisal. They welcomed Albania's recent strong economic performance, underpinned by prudent macroeconomic policies and booming tourism. Directors concurred that the outlook remains favorable with broadly balanced risks, but noted structural challenges related to rapid population aging, emigration, low productivity, and governance shortcomings. They emphasized the importance of preserving macroeconomic stability while advancing reforms to accelerate convergence with the EU and promote sustainable and inclusive growth.

Directors considered that maintaining a modest annual primary surplus alongside continued efforts to strengthen debt management would reinforce fiscal resilience. While welcoming the progress on the authorities' medium-term revenue strategy, they emphasized that sustained revenue administration and tax policy reforms will be needed to address rising spending needs. Directors stressed that public investment and fiscal risk management reforms, especially related to state-owned enterprises and public-private partnerships, remain critical to fiscal transparency.

Directors agreed that uncertainty around the outlook calls for a continued data-dependent approach to monetary policy. As the sustained lek appreciation is assessed to be largely driven by fundamentals, Directors emphasized that the exchange rate should be allowed to adjust more flexibly, with intervention serving as a complementary tool to address non-fundamental fluctuations. Carefully weighing the costs and benefits of further reserve accumulation would also be important.

Directors concurred that continued supervisory vigilance is vital given pockets of vulnerability in the financial sector related to credit growth in the real estate sector as well as banks' large borrower and sovereign exposures. They encouraged the authorities to ensure strict regulatory compliance and greater alignment with EU standards, and to enhance the macroprudential toolkit. Deepening financial markets and improving oversight of non-bank financial institutions are key to enhancing resilience and preserving integrity.

Directors emphasized that deeper reforms are needed to maximize the gains from the EU accession process. Policies should focus on enhancing productivity by fostering global value chain integration, removing barriers to firm growth, and promoting access to bank lending. Further efforts to update education and training programs, advance on the digital agenda, boost female labor force participation, and diversify renewable energy sources would also be important. Directors emphasized that continued infrastructure investments and governance reforms—including the implementation of the 2024–30 Anticorruption Strategy and further implementation of AML/CFT international standards—are key priorities.

[2] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summing up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Albania: Selected Economic Indicators

Population: 2.8 million (2023)
Life expectancy (years): 76.8 (2023)
Nominal GDP ($bn): 23.0 (2023)
Quota: SDR 139.3 million (0.03 percent of total)

Per capita GDP ($): 8300 (2023)
Literacy rate: 99% (2022)
Poverty rate: 21.7% (2023)

	2023	2024	2025	2026
			Proj.	
Output				
Real GDP growth (%)	3.9	3.6	3.5	3.5
Output gap (%)	0.5	0.3	0.1	0.0
Prices				
Inflation (%, average)	4.8	2.2	2.8	2.8
Inflation (%, end-period)	3.9	2.0	2.2	3.0
General government finances				
Revenues (% GDP)	27.2	28.1	27.9	27.9
Expenditures (% GDP)	28.5	29.8	30.4	30.5
Fiscal balance (% GDP)	-1.3	-1.7	-2.5	-2.6
Public debt (% GDP) 1/ 2/	58.4	56.4	55.5	54.5
Primary balance (% GDP)	0.7	0.5	0.0	0.0
Money and credit				
Broad money (% change)	2.0	7.1	5.4	6.6
Credit to the private sector (% change)	5.0	10.7	5.4	6.6
Balance of payments				
Current account (% GDP)	-1.2	-3.4	-3.7	-3.9
FDI (% GDP)	5.7	6.0	6.0	5.8
Reserves (months of imports)	7.3	6.3	6.2	6.3
External debt (% GDP)	46.2	41.0	39.8	38.7

Sources: Albanian authorities, World Bank, UNDP, and IMF staff estimates and projections.

1/ Public debt refers to the general government and includes all public domestic and external guarantees as well as arrears from central and local government and VAT refund arrears.

2/ The 2021 SDR allocation equivalent at present to $170 million is recorded with the Bank of Albania and is used as a credit line.

ALBANIA

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION

December 17, 2024

KEY ISSUES

Context. Albania is on track to be one of the fastest growing economies in Europe in 2024, underpinned by tourism and prudent macroeconomic policies. Despite this strong performance, GDP per capita stands at just around a quarter of the EU-15 level. The economy is also facing structural headwinds, stemming from rapid population aging, emigration, low productivity, and governance shortcomings.

Policy Recommendations. The hard-earned gains on macroeconomic stability should be safeguarded, while deep structural reforms are needed to accelerate convergence.

- **Fiscal policy to shore up revenue, credibility, and transparency.** A broadly neutral fiscal stance, along with lengthening debt maturities, would reduce average gross financing needs and strengthen economic resilience. Securing resources to support long-term inclusive growth will require sustained revenue reforms. Revenue administration will need to be supported by improved IT infrastructure, data utilization, staffing and capacity to enhance compliance, including in the tourism and construction sectors, and among high-net-worth individuals. Efforts should resume to streamline the tax regime for self-employed professionals, in conjunction with the removal of the zero-income tax rate for small businesses. The groundwork for the introduction of a new property tax law—including the establishment of a fiscal cadaster—should be completed in a timely manner. Public investment and fiscal risk management reforms, particularly in relation to SOEs and PPPs, remain critical to fiscal transparency and credibility.

- **Monetary policy to safeguard price stability.** Uncertainty around the outlook calls for a continued data-dependent approach. Absent significant inflationary shocks, there may be scope for a further modest reduction in the policy rate in 2025 to reduce the risk of de-anchoring inflation expectations. As the sustained lek appreciation is assessed to be largely driven by fundamentals, consideration should be given to allowing the exchange rate to adjust more flexibly, with intervention serving only as a complementary tool to address non-fundamental fluctuations. Further reserve accumulation should carefully weigh the costs and benefits, including risks to the central bank balance sheet and implications for monetary policy transmission and financial market development.

- **Financial sector policies to enhance resilience and support growth.** Continued supervisory vigilance is vital given pockets of vulnerability, including related to rapid credit growth and unhedged lending in the real estate sector and banks' large borrower and sovereign exposures. Such vulnerabilities call for strengthening supervision (including through ensuring strict regulatory enforcements and greater alignment with EU standards) and improving the macroprudential toolkit (borrower and capital-based measures). Deepening financial markets, addressing climate and cyber risks, and enhancing oversight of non-bank financial institutions are key to enhancing resilience and preserving integrity.

- **Structural reforms to maximize gains from the EU accession process.** Policies should focus on raising productivity by fostering integration in global value chains, removing barriers to firm growth such as distortionary tax incentives and hurdles to bank lending, promoting technology adoption and improving education and training. Continued investments in infrastructure (including for energy security) and sustained governance reforms, including the timely adoption of the Anticorruption Strategy, filling critical court vacancies in a transparent, competitive, and merit-based manner, and implementation of AML/CFT international standards, are critical.

Approved By
Uma Ramakrishnan (EUR) and Jarkko Turunen (SPR)

Discussions were held in Tirana during November 13–21, 2024. The team comprised Anke Weber (head), David Bartolini, Fazurin Jamaludin, Jakree Koosakul, Hasan Toprak, Zeju Zhu (all EUR), Olti Mitre and Eugena Topi (local economists), and Sebastian Sosa (Resident Representative), with assistance from Monique Odoño, Brigitte Plein and Sharon Smith-Tohu. Significant contributions to the staff report were made by Amanda Edwards, Maximilian Fandl, Rebecca Huang, Jesper Linde, and Roland Meeks. Gianmarco Cocozza (OED) participated in the meetings, and Riccardo Ercoli (ED) joined for the concluding meetings and press conference. The mission held discussions with the Minister of Finance, Mr. Petrit Malaj, the Governor of the Bank of Albania, Mr. Gent Sejko, and other senior officials. The mission also met with parliamentarians, civil society, commercial banks, and development partners.

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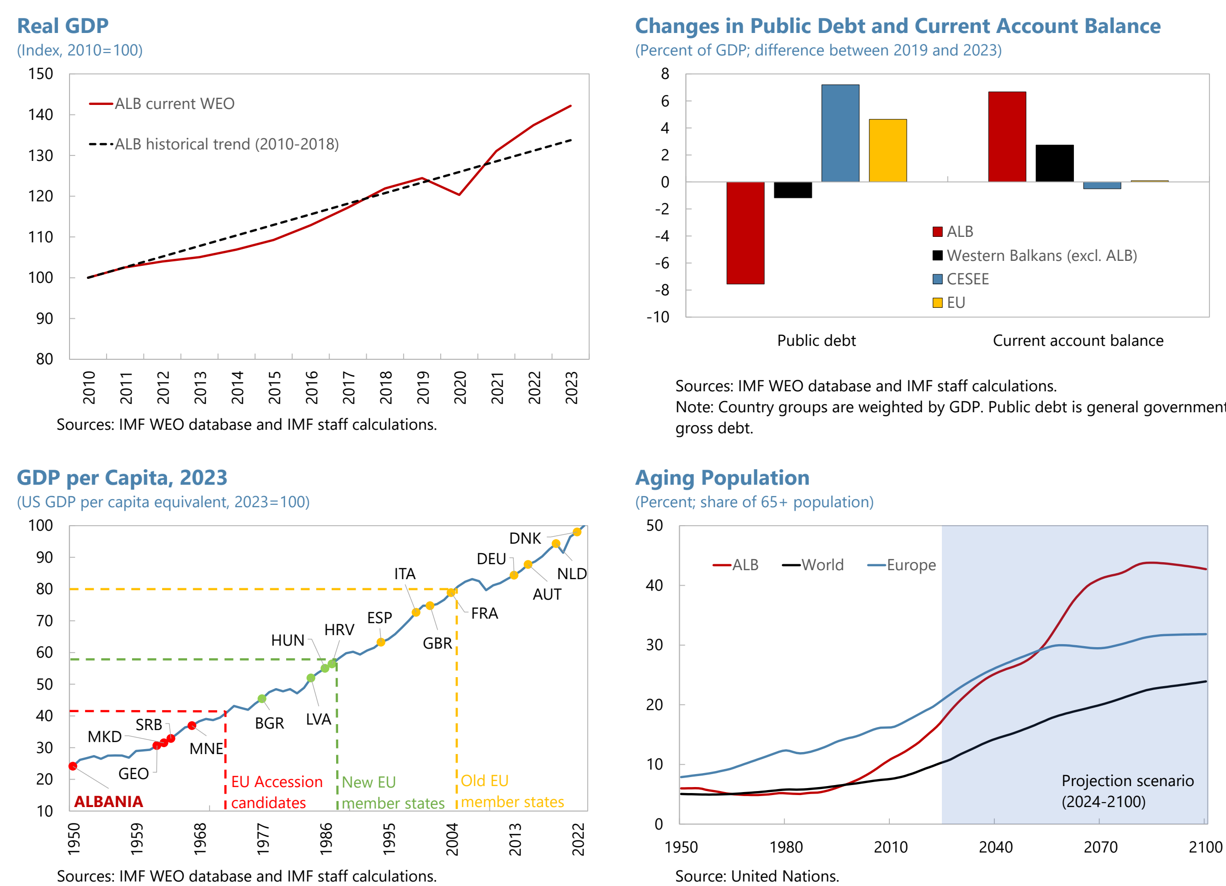
ANNEXES

AT A GLANCE

1. The Albanian economy has turned in a strong performance, underpinned by prudent macroeconomic policies. Rather than facing negative hysteresis effects from successive shocks (the 2019 earthquake, pandemic, and energy crisis), output is now well above its pre-pandemic trend thanks to a booming tourism sector. Prudent fiscal policies contributed to a remarkable reduction in public debt while proactive monetary policy and falling global commodity prices amid steady exchange rate appreciation facilitated disinflation. External imbalances have shrunk considerably.

2. Nonetheless, accelerating convergence to EU income levels will require overcoming structural challenges while safeguarding hard-earned gains on macroeconomic stability. GDP per capita stands at only around one quarter of the U.S. and EU-15 level in 2023 (equivalent to U.S. GDP p.c. in 1950), amid rapid population aging and emigration. Wide-ranging reforms, including to enhance governance and public financial management frameworks and boost human capital and productivity, are needed to catalyze lasting higher growth. Implementation of past IMF advice has been mixed (Annex I).

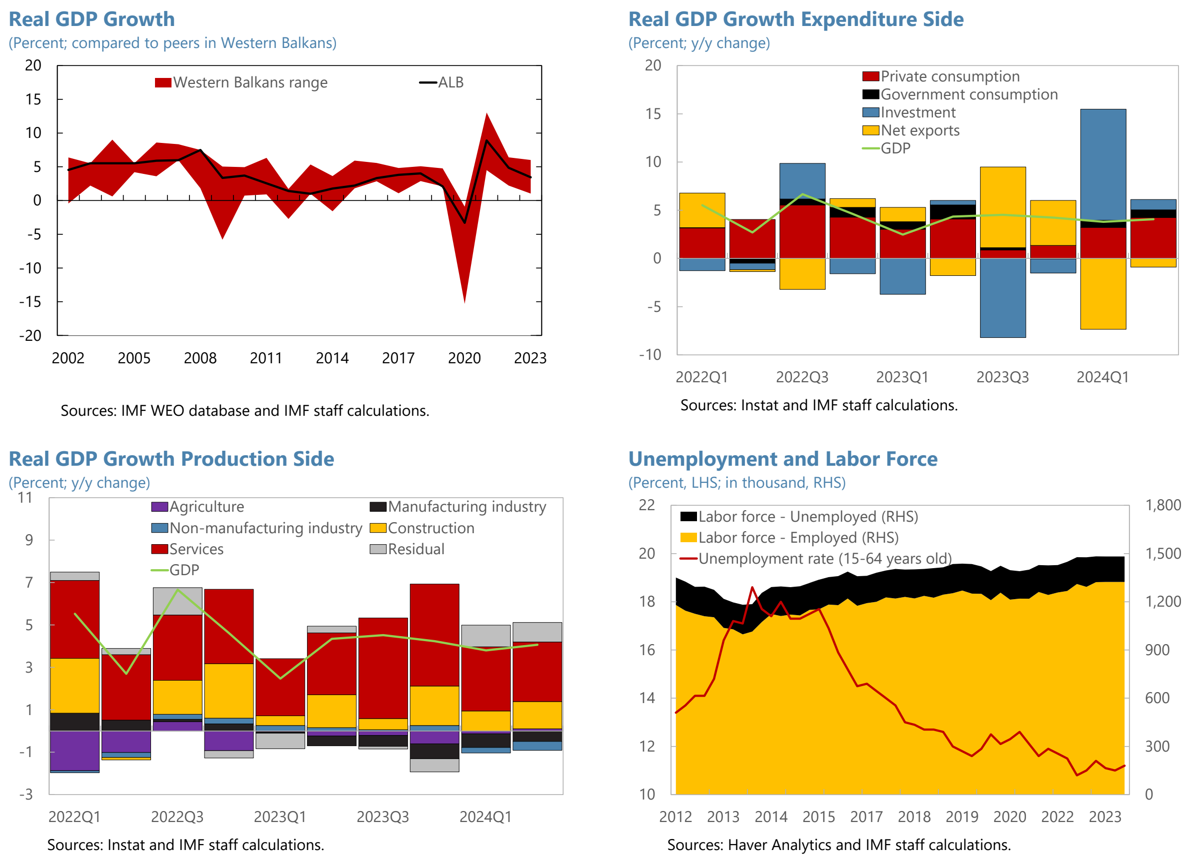
Figure 1. Albania: Strengths and Challenges



RECENT DEVELOPMENTS: RESILIENT GROWTH AND PRUDENT POLICIES

3. **The economy continues to grow at a robust pace.** Real GDP expanded by 3.9 percent in 2023, and 3.8 and 4.1 percent y/y, respectively, in Q1 and Q2:2024, supported by domestic demand, with notable strength in services (tourism) and construction activity. Activity indicators suggest sustained momentum in the remainder of 2024: tourist arrivals are up by 16 percent y/y in the first 10 months of 2024, and economic confidence indicators continue to exceed their long-term averages. In 2023 the economy was operating 1/2 percent above potential, and unemployment was at a record low.

Figure 2. Albania: Real GDP and Employment

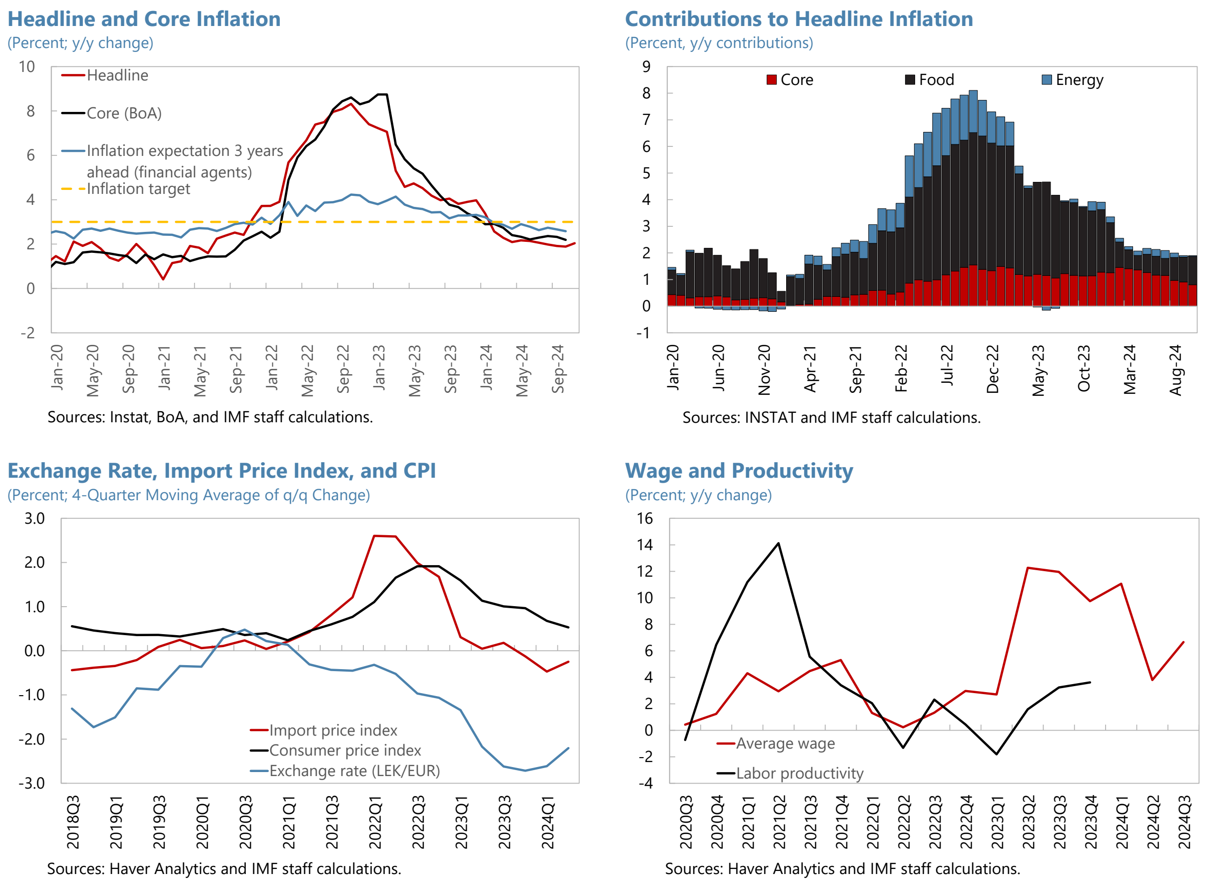


4. **Inflation has fallen below the Bank of Albania's 3 percent target.** Headline and core inflation eased to 2 and 2.3 percent y/y respectively in November 2024, while 3-year inflation expectations have fallen below 3 percent. The rapid disinflation is driven by falling food prices compounded by declining import prices amid exchange rate appreciation.[1] The tight labor market,

[1] Updated empirical analysis following Gopinath (2015) shows a cumulative impact of about 0.2 percent on headline CPI (for a 1 percent appreciation) over four quarters.

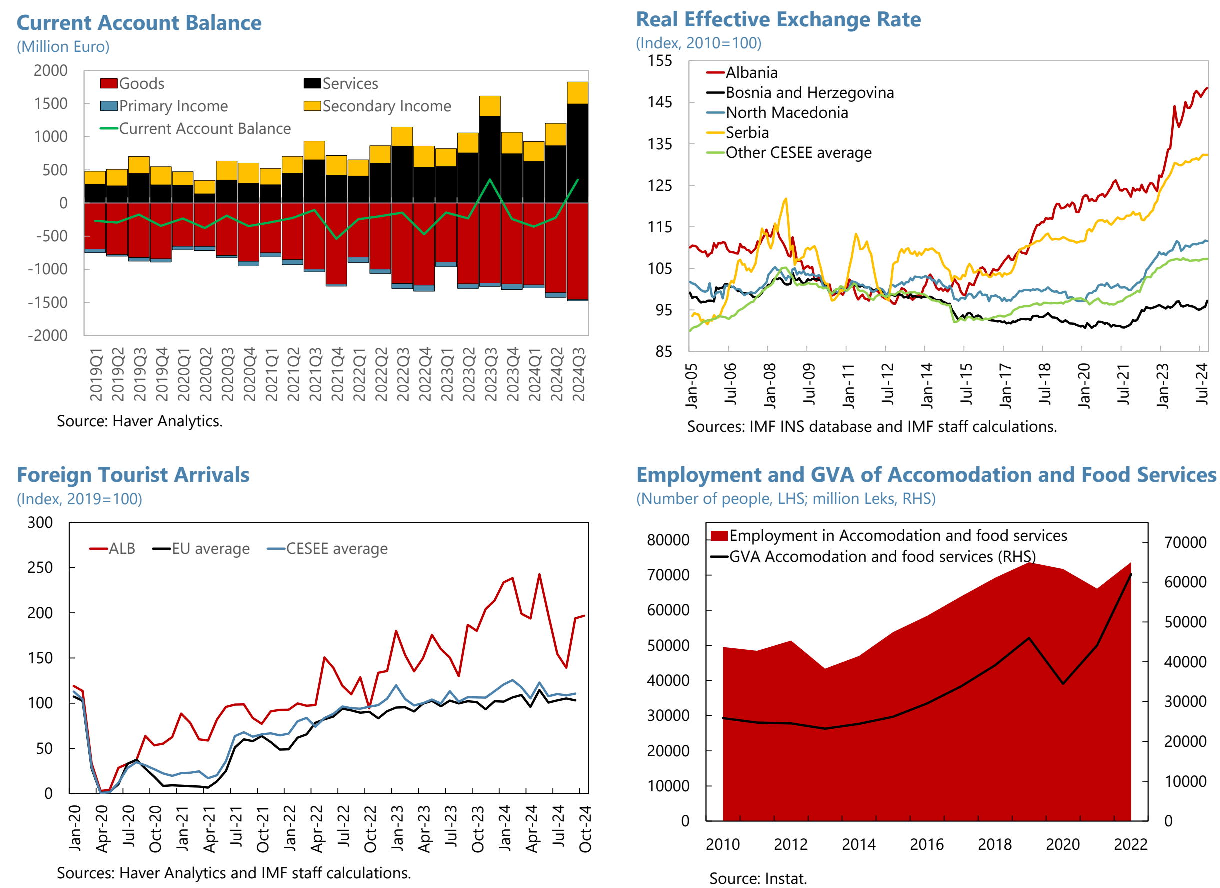
positive output gap, and double-digit wage increases in 2023 have not translated into significant price pressures so far. The BoA cut its interest rate by 25 basis points to 2.75 percent in November 2024, signaling that future rate decisions would remain data dependent.

Figure 3. Albania: Inflation and Wages



5. **External imbalances narrowed considerably in 2023, but recently widened.** The current account deficit reached 1.2 percent of GDP in 2023 (2022: 5.9 percent) with a larger-than-expected increase in the services balance, despite some moderation in FDI and remittance flows (in percent of GDP). The current account deficit in Q1-Q3 2024 is larger than in Q1-Q3 2023 (--0.9 vs. -0.1 percent of full year GDP) largely due to lower electricity production and goods exports and higher imports, including from the construction sector.

Figure 4. Albania: Current Account, Tourism Inflows, and Exchange Rates



6. **The BoA intervened forcefully in the FX market.** In August 2024, the exchange rate dipped below 100 lek per euro for the first time, driven by tourism inflows, the improved sovereign credit outlook,[2,3] and, to a lesser extent, greater foreign participation in the domestic sovereign bond market. BoA intervention during the first 9 months of 2024 reached around 2.6 percent of 2023 GDP—almost triple the amount of the same period in 2023—of which about 40 percent are regular auctions aimed at building up reserves and 60 percent are discretionary. Gross external reserves are assessed as adequate at around 6 months of imports and 130 percent of the IMF's adequacy metric.[4]

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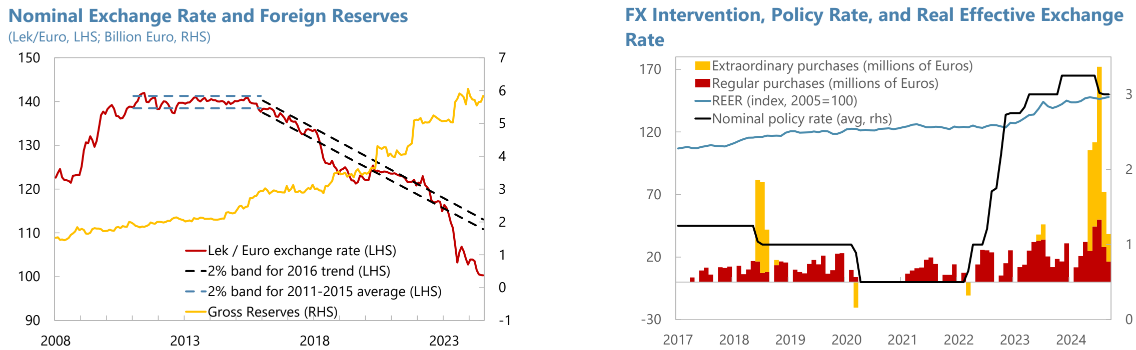
[2] S&P upgraded Albania's rating from B+ to BB- in March 2024 and Moody's from B1 to Ba3 in October 2024.

[3] Annex III of the 2023 Article IV Report identified productivity and tourism as key long-term exchange rate determinants.

[4] The ARA is calculated under a reclassified crawl-like de facto exchange rate regime in 2024 (see Annex II and the Informational Annex). The reclassification is based on a statistical methodology that is implemented by staff evenhandedly across member countries. The methodology follows a backward-looking statistical approach that relies on past exchange rate movement and historical data. Therefore, this reclassification does not imply statements or views on future or intended policies nor does it imply a policy commitment on the part of the country authorities.

Figure 5. Albania: Exchange Rate, Reserves, and Foreign Exchange Intervention

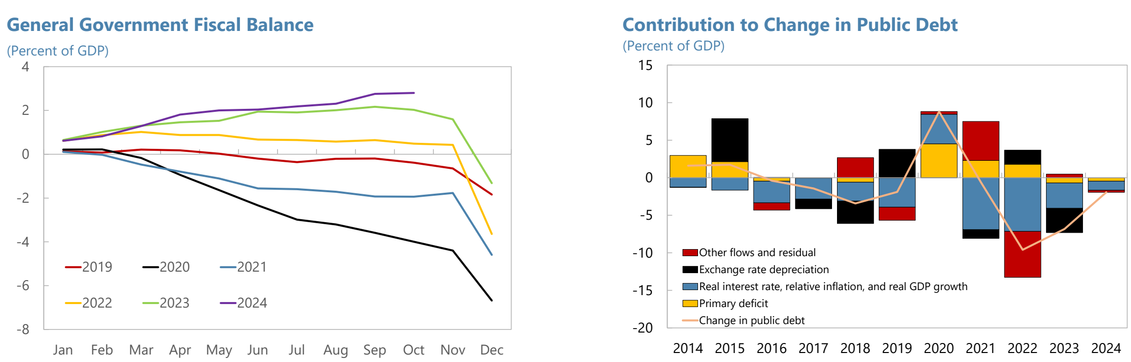


Sources: Bank of Albania and IMF staff calculations.

Sources: BoA, Haver Analytics, and IMF STA INS database.

7. The authorities are on track to outperform their 2024 budget target. A supplementary budget (normative act) in August revised revenues and capital spending up while maintaining the original budget's primary balance target of 0.3 percent of GDP. A one-off return of unused social security funds partly compensates for the impact of the Constitutional Court's decision to strike down legal provisions to increase the tax contribution of self-employed professionals on 2024 finances. Capital spending will likely fall short of budgeted amounts (execution as of October 2024 is around 30 percent). Public debt is estimated at around 56 percent of GDP, largely a reflection of larger-than-expected fiscal consolidation in 2023 and lek appreciation.

Figure 6. Albania: Fiscal Balance and Debt Decomposition



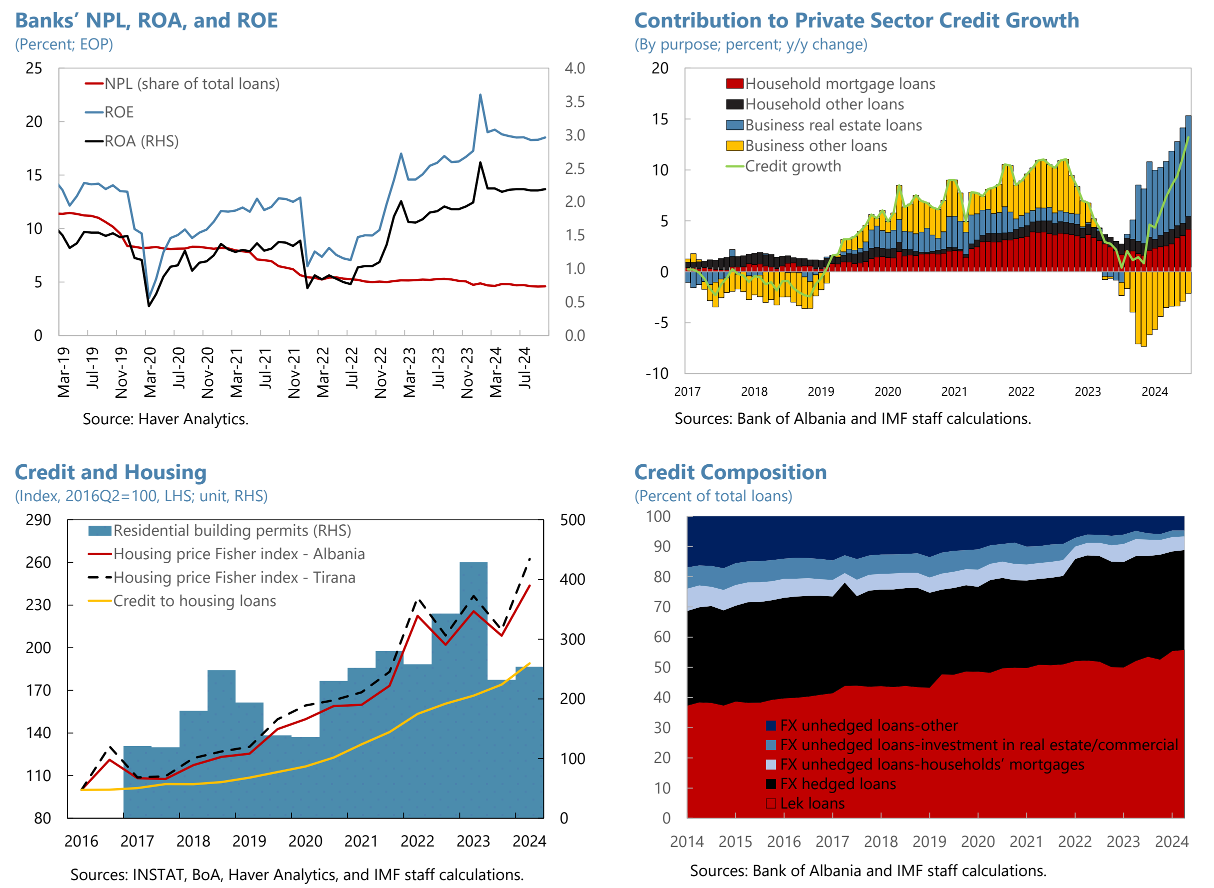
Sources: MoF, IMF WEO, and IMF staff calculations.

Source: IMF staff calculations.

8. Strong bank profitability and healthy balance sheets have contributed to an acceleration in credit growth. Bank profitability reached a record high in 2023 amid increasing interest rates, before falling slightly in 2024, while non-performing loan (NPL) ratios remain at historical lows. Healthy balance sheets and declining risk premia have facilitated a steep increase in total loans.[5] Most of this lending is related to real estate, which is continuing to see rapid price increases and accounts for two-thirds of unhedged FX lending.

[5] BoA, Quarterly Monetary Policy Report, 2024/II.

Figure 7. Albania: Credit and Real Estate Developments



ROBUST OUTLOOK AMID BALANCED RISKS

9. **Albania is on track to be one of the fastest growing countries in Europe in 2024 and growth is expected to remain robust over the medium-term.**[6] Domestic demand will be supported by wage growth, and construction activity, including related to the tourism sector. Tourist arrivals are projected to grow at a more moderate pace as pent-up demand for travel from the pandemic wanes but will be supported by Albania's price competitiveness and improved capacity as investments in recent years bear fruit. As a result, real GDP is projected to grow by 3.6 percent in 2024 and then converge towards its potential of about 3½ percent. The positive output gap is projected to close by 2026. From a structural perspective, medium-term growth remains below the pre-GFC level, with a negative contribution of labor given the anticipated decline in the working age population.

[6] Staff's baseline assumes: (i) global commodity and energy prices as in the October 2024 WEO; (ii) a constant real effective exchange rate; (iii) that the policy rate remains at the current level until 2026 and then adjusts towards staff's estimated neutral rate (3.6 percent).

Text Table 1. Albania: Macroeconomic Projections 2024–26
(Percent)

	GDP growth			Inflation		
	2024	2025	2026	2024	2025	2026
Staff projections	3.6	3.5	3.5	2.2	2.8	2.8
BoA	4.0	3.6	-	2.4	3.0	3.0
MoF	3.9	3.9	4.0	2.3	3.0	3.0
World Bank	3.3	3.4	3.4	2.5	2.7	2.9
Consensus Forecast	3.8	3.8	-	2.3	2.5	-
European Commission 1/	3.7	3.9	4.0	3.0	3.0	3.0

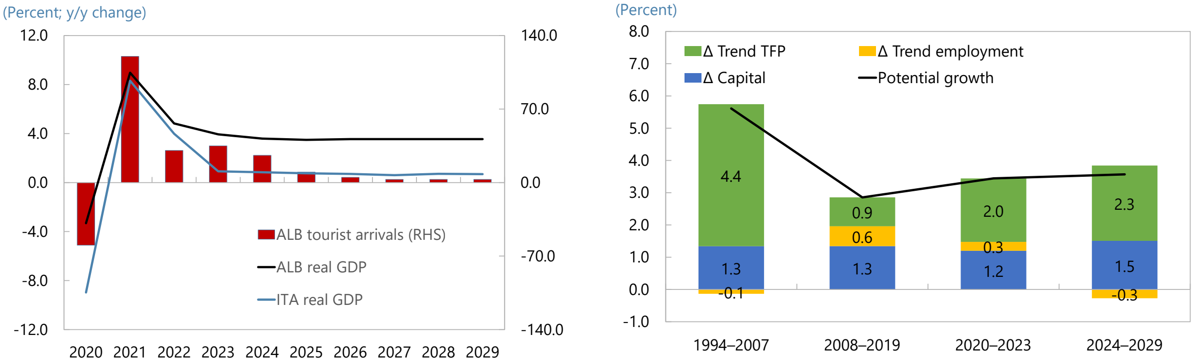
Sources: Consensus Forecast (November 2024), BoA, MoF, World Bank, and IMF staff projections.

1/ European Commission, Institutional Paper #288, June 2024.

Figure 8. Albania: Real GDP and Potential Growth Outlook

Real GDP and Tourists Arrival Growth
(Percent; y/y change)

Potential Growth and Components
(Percent)

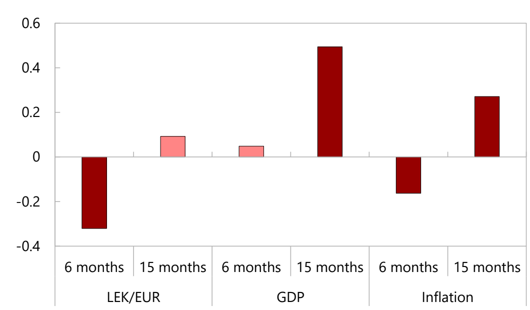


Sources: IMF WEO database and IMF staff calculations.

Sources: National authorities and IMF staff calculations.
Note: Methodology is based on Benes and others (2010), IMF WP 10/285.

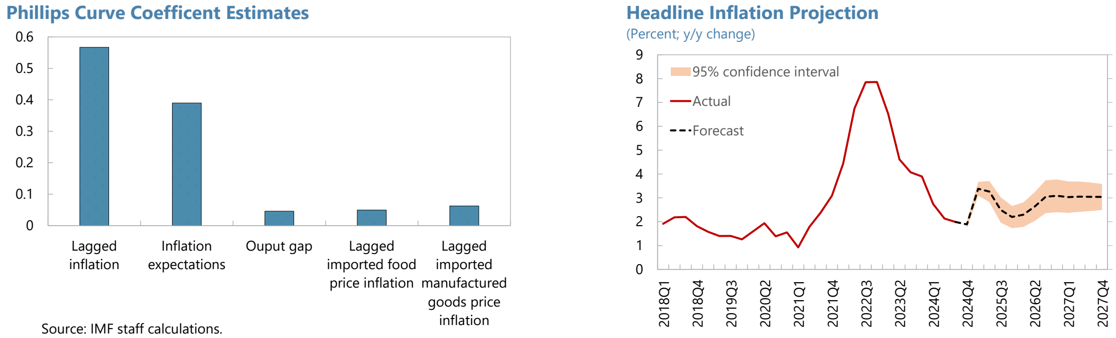
10. Inflation is expected to sustainably return to target in 2026. Although base effects from a significant month-on-month drop in Q1:2024 will temporarily push up inflation in the first half of 2025, a sustained increase to target is not projected before 2026, given the high degree of inflation inertia in Albania. With the economy highly euroized, monetary easing in the euro area is also expected to boost domestic inflation, albeit with some lag. Staff analysis suggests that historical episodes of ECB easing initially lowered inflation amid appreciation of the lek, but over time led to inflationary pressures through increased economic activity.

Figure 9. Albania: Spillovers from ECB Loosening



Source: IMF staff calculations.
Note: The bars represent the responses of variables to a one standard deviation unexpected monetary policy loosening from the ECB after 6 months and after 15 months. The monetary policy shocks are taken from Jarocinski and Karadi (2020).

Figure 10. Albania: Inflation Forecasts



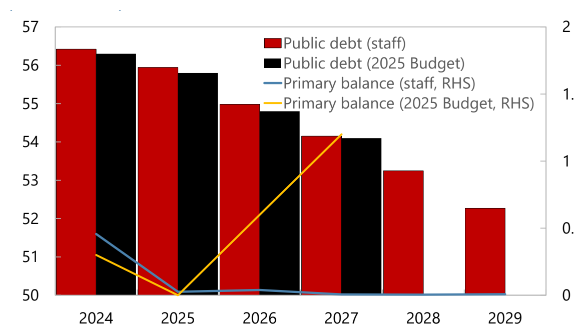
Source: IMF staff calculations.
Note: All variables are in quarterly annualized form. All the coefficient estimates are statistically significant at 0.1 level.

Source: IMF staff calculations.
Note: Based on Phillips Curve estimates.

11. The current account deficit is expected to widen over the medium term, gradually moving towards the estimated norm in the outer years of the forecast horizon (Annex II). The external position in 2024 is estimated to be moderately stronger than the level implied by fundamentals and desirable policies. Major public investment outlays, including the construction of a seaport, are expected to result in higher imports, increasing the current account deficit in 2025 and 2026. After a temporary decline in the deficit in 2027, the current account balance is projected to gradually move towards the estimated norm as goods imports continue to increase, supported by strong input demand from the tourism sector.

12. The 2025 budget targets a zero primary balance, an expansion of about 0.3 percent of GDP in cyclically adjusted terms, and a significant consolidation in 2026–2027. The authorities plan a considerable increase in domestically financed capital expenditure and local government, operations and maintenance spending, partially offset by increases in VAT, profit tax, and local government revenues on the back of revenue administration measures. The medium-term budget framework envisages significant consolidation, with the primary surplus reaching 1.2 percent in 2027. These projections assume significant implementation of the forthcoming Medium-Term Revenue Strategy (MTRS).

Figure 11. Albania: Fiscal Projections: Staff and Authorities' Baseline
(Percent of GDP)



Sources: Ministry of Finance and IMF staff calculations.
Note: Staff public debt estimates include arrears. The budget adopts a three-year forecast horizon.

13. Staff projects a zero primary balance in 2025–2029 in line with the fiscal rule which requires a nonnegative primary balance. Staff projections consider some of the 2025 budget's revenue measures

(0.4 percent of GDP over 2025–29).[7] The baseline, however, does not incorporate the bulk of MTRS measures, given that the details of their implementation remain unclear. Staff assumes higher current spending than the authorities starting in 2026, especially on social insurance outlays—in line with rising pension financing needs (see the Sovereign Risk-Debt Sustainability Framework, SR-DSF)—and on operations and maintenance, including from digitalization, but lower capital spending, consistent with past under-execution. The SR-DSF points to moderate risk of debt distress (Annex III). While the public debt ratio is expected to decline to around 52 percent by 2029, gross financing needs (GFN) remain considerable, averaging around 15 percent of GDP over 2024–29. The improvement in the public debt outlook compared to the 2023 Article IV reflects better-than-expected fiscal performance, strengthened debt management, and declining financial costs.

14. Risks to the outlook are broadly balanced (Annex IV).

- **Downside risks.** Heightened geopolitical tensions and a global growth slowdown could trigger a recession in Albania's trading partners, dampening domestic growth. Renewed commodity price spikes could reignite inflation. Weaker demand for tourism could result in exchange rate depreciation pressures, negatively affecting the financial and public sector, given the still sizeable share of FX-denominated debt. A real estate downturn could lead to rising NPLs and tighter credit conditions. Weather shocks could result in electricity shortages. Social unrest in the context of upcoming parliamentary elections could slow down reforms.

- **Available policy buffers should be used if downside risks materialize.** Action would be needed to contain a potential significant growth slowdown with rising inflation. The available fiscal space would need to be drawn upon to provide targeted economic support to the vulnerable, while monetary policy should be tightened if inflationary pressures from supply shocks become entrenched.

- **Upside risks.** Stronger-than-expected tourism activity on the back of sustained foreign investment is an important upside risk for growth. Broad-based structural reforms, in the context of the EU accession process—not yet part of staff's baseline—would significantly lift growth.

15. Authorities' Views. The BoA is more bullish than staff on 2024 growth assuming continued strong consumption growth and a pickup in investment in the second half of 2024, while the Ministry of Finance (MoF) is more optimistic based on the sustained pace of tourism activity to date. The BoA projects inflation to sustainably rise to target in the first half of 2025, given more limited room for firms' profit margins to absorb wage increases, a moderation in the pace of exchange rate appreciation, and dissipating 2024 food price disinflationary effects. The authorities shared staff's views on the nature and balance of risks, noting that Albania is more insulated from geopolitical shocks than peers thanks to domestically generated hydropower.

[7] Comprising both MTRS and non-MTRS measures including tax policies (gambling tax and indexation of excise duties) and revenue administration measures e.g. concrete plans to intensify enforcement (such as increased inspections and seizures etc.).

POLICY DISCUSSIONS

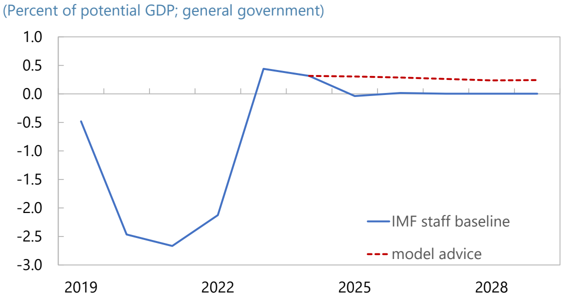
A. Fiscal Policy: Shoring Up Revenue, Credibility, and Transparency to Secure Inclusive Growth

16. Somewhat tighter fiscal policy than under staff's baseline would enhance resilience. Maintaining a modest average annual primary surplus of about ¼ percent of GDP over 2025–29—which would be a broadly neutral stance from 2026 onwards—would reduce average GFNs to below 15 percent, while enhancing resilience to various contingent risks, including those stemming from PPPs, legal liabilities, and SOEs. With the output gap broadly closed going forward, this stance also appears appropriate given growth-debt sustainability tradeoffs (Box 1). Staff's proposed growth-friendly mix of measures includes: (i) revenue administration and tax policy reforms (2.1 percent of GDP); (ii) efficiency gains (½ percent of GDP); and (iii) higher productive spending (1.4 percent of GDP) on education, infrastructure, and climate action. These measures need to be accompanied by continued debt management improvements to further lengthen the average debt maturity.

Box 1. Albania: Model-Based Optimal Fiscal Path

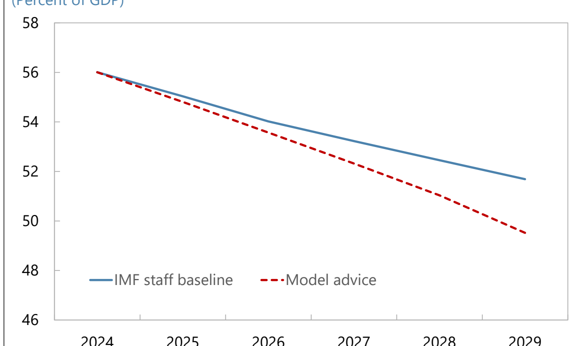
A buffer-stock model based on [Fournier (2019)](#) derives optimal fiscal paths that reflect the tradeoff between supporting output stabilization and medium-term debt sustainability. The channels supporting an expansionary fiscal stance include hysteresis and cycle-dependent fiscal multipliers that magnify the cost of inaction in bad times, whereas channels supporting consolidation are given by the risk premium and the risk of losing market access. Calibrated for Albania, with a broadly closed output gap and a low fiscal multiplier, results suggest a moderately positive structural primary surplus (about ¼ percent of GDP) to reduce debt costs and improve fiscal sustainability.

Structural Primary Balance
(Percent of potential GDP; general government)



Sources: IMF WEO database and IMF staff calculations.
Note: The parameter values are largely based on Fournier (2019), with lower fiscal multiplier (0.2, in line with Ilzetzki, 2011) and higher probability of losing market access at a given debt level (50 percent probability at debt-to-GDP level of 90 percent).

General Government Gross Debt
(Percent of GDP)



Sources: IMF WEO database and IMF staff calculations.

17. Albania's tax revenue performance continues to lag peers and fall short of potential. The tax revenue-to-GDP ratio has hovered around 19 percent of GDP, 3–5 percentage points below the European average and other countries in the Western Balkan. Albania underperforms relative to its own tax revenue potential, estimated by staff at around 23 percent of GDP. With headline tax rates broadly in line with peers, the performance gap suggests important shortcomings in the tax base and the use of tax expenditures, as well as compliance shortfalls.

18. The Medium-Term Revenue Strategy can lay the groundwork for sustained revenue reforms. The draft 2024–27 MTRS introduces new revenue administration measures, tables in property tax reforms starting in 2026, and a review of existing tax policies by 2027. The authorities expect the MTRS measures to raise an additional 2.5 percent of GDP in revenues by 2027, of which 2.1 percentage points will be delivered by strengthened revenue administration. In contrast, staff estimates a lower gain of around 1.2–1.8 percent from administrative improvements over five years, given the complications involved in operationalizing administrative measures. In addition to measures in the MTRS, staff's proposed improvements include strengthened IT infrastructure and improved data access and utilization, as well as enhanced staffing and capacity that would help close compliance gaps, including in the tourism and construction sectors, and among high-net worth individuals.

Text Table 2. Albania: Revenue Measure Options and Estimated Gains

MEDIUM-TERM REVENUE MEASURES	In percent of GDP	
	Lower Bound	Upper Bound
Tax Policy	**0.8**	**1.0**
Direct Taxes	***0.2***	***0.3***
Removing zero taxation on businesses with turnover below 14 million lek	0.1	0.1
Streamlining taxation of self-employed professionals	0.2	0.2
Indirect Taxes	***0.4***	***0.5***
VAT reforms	0.3	0.4
Measures referred to in the MTRS	0.1	0.2
National and Local Taxes	***0.2***	***0.2***
Property tax	0.2	0.2
Revenue Administration	**1.2**	**1.8**
Tax administration	***1.0***	***1.6***
Measures referred to in the MTRS	1.0	1.0
Improving IT Infrastructure, data access and utilization, staffing and capacity	0.0	0.6
Customs administration	***0.2***	***0.2***
TOTAL	**1.9**	**2.7**
Memo Items:		
Tax revenue potential-outturn gap	3.5	
Tax expenditure	4.8	

Source: IMF staff calculations

19. More ambitious tax policy reforms should complement these efforts. Albania has the lowest C-efficiency ratio in the region. Tax expenditures are estimated at 4.8 percent of GDP, of which 3.7 percent are VAT-related. Multiplicities of thresholds, rates, and exemptions encourage under-declaration and weaken self-enforceability. Addressing these shortcomings would not only broaden the tax base but also support revenue administration. In addition, the initiative to streamline the tax regime for self-employed professionals should resume, ideally in conjunction with the removal of the zero-income tax rate for businesses with an annual turnover of up to 14 million lek. Property tax reforms should be accelerated, with the groundwork for the introduction of a new property tax law in 2026—including the establishment of a fiscal cadaster and property valuation procedures—completed in a timely manner. Staff estimates that such tax policy actions could generate an additional 0.8–1.0 percent of GDP over the medium-term.

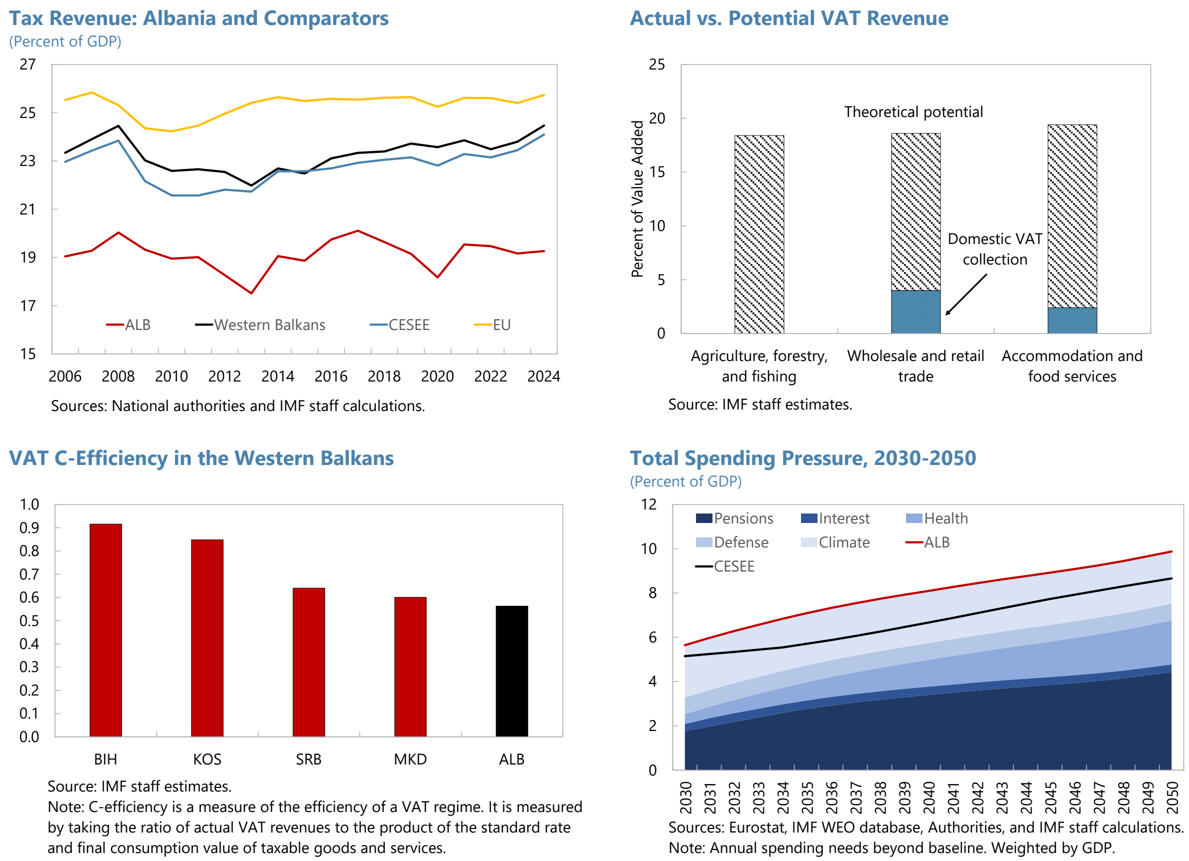
20. Rising long-term spending pressures will necessitate even more ambitious reform efforts. Staff analysis estimated a cumulative increase in public spending needs of around 7 percent of GDP in the next 10 years—hitting 10 percent by 2050.[8] Labor market and pension reforms—including strengthening workers' coverage and participation in the pension system—will be needed to help mitigate spending pressures.[9] In this context, ad hoc pension increases—such as the year-end bonus announced by the authorities in November 2024—should be approached with caution, lest they become permanent. Support for vulnerable households is better channeled through well-targeted social assistance schemes. More ambitious revenue reforms, for instance, reducing the

[8] See "Long-Term Spending Pressures in Europe," (IMF WP, forthcoming).

[9] See Annex VIII of the 2023 Article IV Staff Report.

disparity in tax treatment of certain sectors of the economy, such as agriculture, could help Albania reach its full tax revenue potential. Continued progress in strengthening governance (Section D) and reducing informality would help lift tax collection towards the EU average.

Figure 12. Albania: Tax Performance and Spending Pressures



21. There is scope for improving the composition and quality of public spending. More funding could be redirected towards public education—especially at the secondary and tertiary levels—and healthcare spending. The coverage and reach of social assistance for the poor in Albania lag many comparators and could be further enhanced through spending reprioritization. By some metrics, the educational and healthcare outcomes in Albania have not been commensurate with the level of spending. Operationalizing the National Single Project Pipeline and improving budget execution monitoring can improve the quality of spending. Regular spending reviews—including to ensure public wage increases are linked to efficiency gains supported by technology and on-the-job training—would ensure that spending is aligned with evolving priorities.[10]

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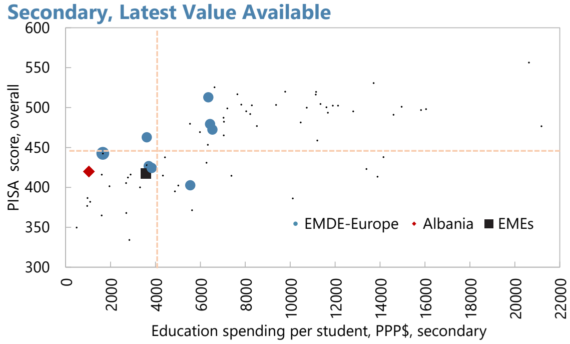
[10] See "How to Design and Institutionalize Spending Reviews".

Figure 13. Albania: Improving Public Spending Composition, Benchmarking Using the IMF's Expenditure Assessment Tool

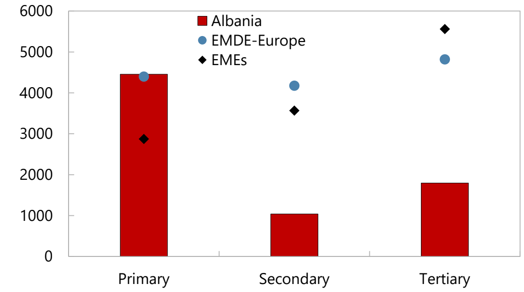
Government Education Spending and Outcome, Secondary, Latest Value Available



Sources: IMF FAD Expenditure Assessment Tool and World Bank.
Note: Dashed lines are the average of EMDE-Europe countries.

Government Education Expenditure per Student, Latest Value Available

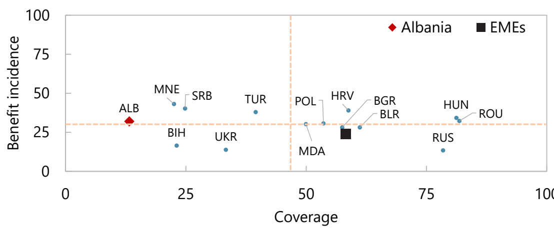
(PPP$, adjusted)



Sources: IMF FAD Expenditure Assessment Tool and World Bank.

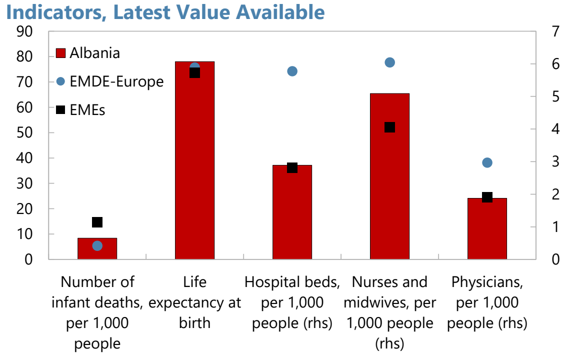
Social Assistance Coverage and Benefit Share of the Poorest 20 Percent, Latest Value Available

(Percent)



Sources: IMF FAD Expenditure Assessment Tool and World Bank.
Note: Dashed lines are the average of EMDE-Europe countries. Coverage is (number of individuals in the quintile who live in a household where at least one memeber receives the transfer)/(number of individuals in that quintile). Benefit incidence is equal to (sum of all tranfers received by all individuals in the quintile)/(sum of all transfers received by all individuals in the population).

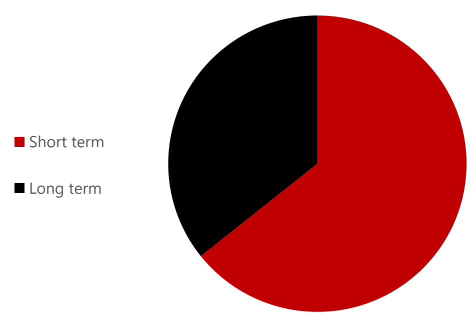
Health Indicators and Health System Characteristics Indicators, Latest Value Available



Sources: IMF FAD Expenditure Assessment Tool and World Bank.

22. **Risks emanating from contingent liabilities warrant a proactive response.** Long-standing reciprocal arrears among the largest SOEs—comprising utilities and energy companies—have accumulated to 7 percent of GDP and the largest SOEs' liabilities are equivalent to 13 percent of GDP, two-thirds of which have short maturities. PPP projects remain significant relative to GDP (25 percent) and are highly concentrated, particularly in the energy sector. Regular publication of a suitably robust standalone fiscal risk statement is necessary to bolster risk monitoring and management. Using the SOE Health Check tool, Stress Test tool, and the PPP Fiscal Risk Assessment Model can support more forward-looking analysis in identifying and mitigating risks. Gradual adjustment of electricity tariffs to fully reflect costs will help contain fiscal risks from

Figure 14. Albania: Largest SOE Liabilities by Maturity

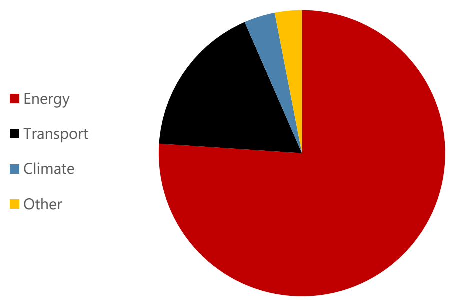


Source: IMF staff calculations.
Note: Reflects the eight largest SOEs accounting for around three quarters of the SOE sector monitored by the Ministry of Finance.

energy SOEs. These efforts need to be accompanied by reforms to significantly enhance the central oversight of SOEs and PPPs and integrate PPPs into the PIM framework and regular budgetary process. Boosting the MoF's capacity to assess the risks and trade-offs of SOEs' and municipalities' borrowing, and a well-functioning capital market infrastructure, are prerequisites for their successful bond issuances over the medium-term.

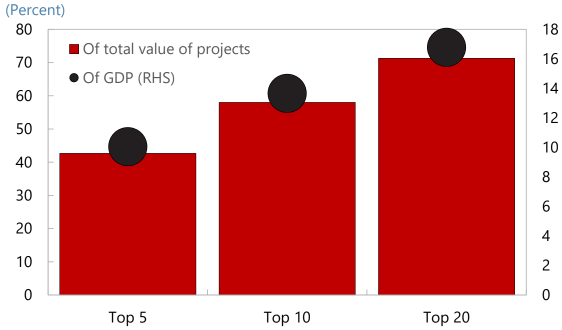
Figure 15. Albania: Public-Private Partnership (PPP) Projects

PPP Projects by Sector
(Percent of total value of projects)



Source: IMF staff calculations.
Note: Total value as at end-2023 is 580 billion lek (25 percent of GDP).

Largest PPP Projects Value Relative to Total Value of Projects and GDP
(Percent)



Source: IMF staff calculations.

23. The success of the fiscal reform agenda will hinge on strengthened coordination and planning. With some critical reform areas now straddling the remits of the newly formed MoF and Ministry of Economy, forging ahead will require strong and close coordination, along with adequate staffing and resources. Realistic macroeconomic programming, a more integrated budget planning and monitoring, as well as improved budget execution management, can help reduce the use of normative acts. The continued publication of the annual report on the implementation of the PFM Strategy will help ensure accountability and transparency.

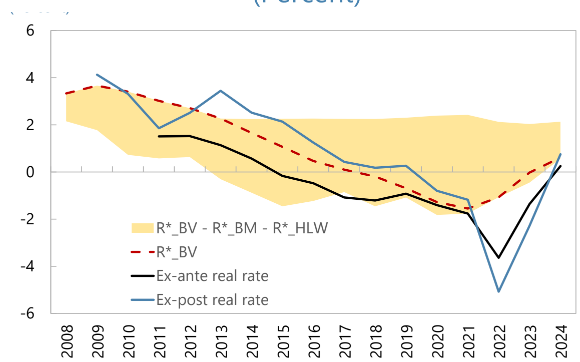
24. Authorities' Views. The authorities are optimistic on attaining the MTRS targeted revenue increase of 2.5 percent of GDP within the next three years. They are committed to completing the groundwork for property tax reforms and reviewing tax expenditures in 2025. They noted that a revised PPP law would be sent for public consultation by end-2024, with a planned adoption date of H2 2025. The MoF stressed that no new PPPs with direct budget support are currently planned, and that the publication of a standalone fiscal risk statement is being considered. Pension reforms remain a top priority, even though the pension scheme's deficit is currently at a historically low level, while the end-of-year bonus is a temporary measure. Reduced electricity tariffs for households with consumption caps are viewed as critical to support the vulnerable. The authorities stressed that it would take several years until the prerequisites are in place for successful SOE or municipality bond issuances.

B. Monetary Policy: Safeguarding Price Stability

25. A proactive approach to monetary policy has helped contain inflationary pressures. Following a loosening during the pandemic, monetary policy was subsequently tightened starting in March 2022 to address elevated inflation. Staff analysis suggests that despite high euroization, monetary policy transmission is partly supported by the exchange rate channel and the pass-through in certain credit market segments.[11] The current policy rate of 2.75 percent (with inflation around 2 percent and expectations around 2.5 percent), is assessed to be broadly at neutral ex-post and modestly expansionary ex-ante. The real neutral rate that considers exchange rate movements, while uncertain, is estimated at about 0.6 percent (Box 2).

Figure 16. Albania: Real Monetary Policy Rate

(Percent)



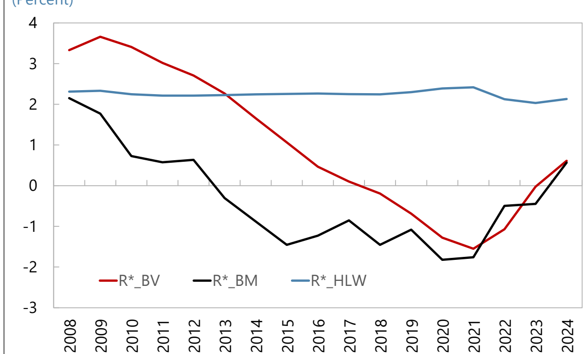
Sources: BOA, Haver Analytics, and IMF staff calculations.

Box 2. Albania: Estimating the Neutral Rate (r*)

This box evaluates the monetary policy stance in Albania against the backdrop of significant exchange rate appreciation. Using quarterly data between 2008–2024, it computes the neutral rate, or r*, defined as the equilibrium real policy rate that is neither expansionary nor contractionary. The analysis is based on an open economy version of the Holston, Laubach, and Williams (2023) model (HLW), following Bulir and Vlcek (2024) (BV), which incorporate exchange rate movements, alongside a monetary policy reaction function and uncovered interest rate parity. Currency appreciation lowers r* because foreign investors gain from the stronger currency, reducing the need for higher domestic interest rates to attract capital.

Neutral Rate Estimates

(Percent)



Sources: BOA, Haver Analytics, and IMF staff calculations.

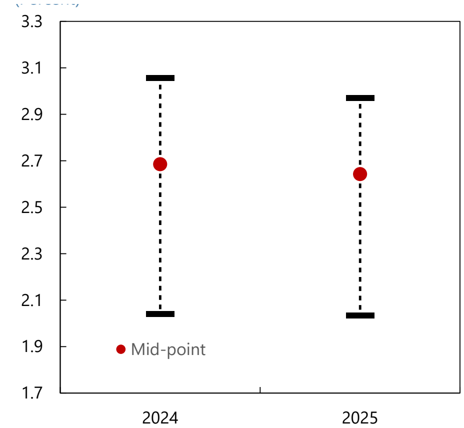
The results highlight the significant impact of exchange rate movements on neutral rate estimates. Based on BV, the point estimate for Albania's neutral rate is approximately 0.6 percent, while the historical average between 2008 and 2024 stands at -0.3 percent; and the steady state neutral rate is around 0.6 percent. Until 2014, the real exchange rate contributed positively to the neutral rate due to currency depreciation, while real appreciation lowered the neutral rate thereafter. The benchmark results align with the univariate statistical model developed by Beyer and Milivojevic (2023), or BM, but differ significantly from that of HLW.

[11] Chen et al. (forthcoming, IMF WP).

26. Uncertainty around the outlook calls for a continued data dependent approach. With inflation below target, the 25 basis-point cut by the BoA in November 2024 was appropriate, bringing the policy rate close to the mid-point suggested by a Taylor rule simulation. Absent significant inflationary shocks, and as base effects dissipate, inflation may fall back below target in 2025 and there may be scope for a further modest reduction in the policy rate in 2025 to reduce the risk of de-anchoring inflation expectations.

Figure 17. Albania: Taylor Rule Policy Simulation

(Percent)



Sources: IMF staff calculations.

Notes: The left panel is based on a hybrid Taylor rule: $i_t = \rho i_{t-1} + (1-\rho)[r^* + \pi^* + \beta^P(\pi_t - \pi^*) + \beta^Y(y_t - y^*)]$ with range of parameter values $\rho \in (0.4, 0.6), \beta^P \in (1, 1.5), \beta^Y \in (0, 0.4)$ and with the neutral interest rate band $r^* \in (-0.6, 1.6)$.The baseline policy rate is calculated using the mid-points of the parameter values. The upper and lower bands represent the calculation based on the max and minimum values of the parameters, respectively. The inflation used is the end of period headline inflation.

27. The exchange rate should continue to play its role as a shock absorber, with FXI serving as a complementary tool in certain circumstances. An application of the quantitative integrated policy framework (IPF) to Albania (see Selected Issues Paper) suggests that the sustained appreciation of the lek has been largely driven by fundamentals. Accordingly, the BoA should consider allowing the exchange rate to adjust more flexibly, relying on the policy rate as the primary instrument for price stability. The analysis also finds that there were some limited episodes, including in 2024, in which fundamental appreciation pressures were compounded by non-fundamental forces. In such circumstances, FXI could serve as a complementary tool to break speculative momentum, but such intervention should be limited in scale. In doing so, the authorities should also internalize the potential adverse consequences of FXI (and further reserve accumulation), including on FX market development.

28. Further reserve accumulation should be guided by a careful cost-benefit analysis. While the current low interest rate differential vis-à-vis the euro area implies low carry cost, continued reserve accumulation would subject the BoA to greater interest rate risks and potential FX revaluation losses, which may restrain the perceived flexibility of monetary policy going forward. Further accumulation could also result in a transition of the banking system from a structural liquidity deficit into a surplus, with implications for the efficacy of monetary policy and money market development.[12] The BoA could consider complementing further reserve accumulation with enhanced and pre-emptive macroprudential policies to address risks arising from FX mismatches (see next section).

29. Authorities' Views. The BoA noted that recent rate cuts were an "inflation expectations management device", while it still expects that the policy rate will converge to the estimated neutral

[12] In H1 2024, the structural liquidity deficit averaged around 200 million euro, below the amount of planned FX auctions for 2024 (250–330 million euro).

rate (4.5-5.5 percent) over the medium-term. The BoA concurred that the exchange rate has appreciated largely on the back of fundamentals, and as such should remain the primary shock absorber. The BoA noted that some intervention can be helpful in smoothing the pace of appreciation and thereby avoid potentially large and sudden portfolio shifts. It stressed the importance of having adequate reserves in an uncertain world (based on its optimal reserve accumulation model).

C. Financial Sector Policies: Enhancing Resilience and Supporting Growth

30. Systemic vulnerabilities in the finanical system appear broadly contained. The banking sector overall remains well-capitalized and liquid, with an average adequacy ratio of 20.2 percent in September 2024 (compared to the minimum regulatory requirement of 12 percent) and liquidity ratios above regulatory requirements.[13] Staff's stress tests indicate broad resilience of banks to shocks to NPLs and interest rates (see Selected Issues Paper). The small non-banking (NBFI) sector—comprising less than 10 percent of financial sector assets in Q1:2024—poses limited contagion risks.[14]

31. Nevertheless, continued supervisory vigilance is needed given pockets of vulnerablity, including:

- **Large exposures**: One bank falls short of the minimum regulatory capital requirement in a baseline stress scenario involving the default of each bank's largest borrower, and several banks fall short under the more severe scenario involving the default of two largest borrowers.

- **Sovereign exposures and liquidity risks:** Albania continues to rank among the top in Europe in terms of banks' sovereign securities holdings, pointing to risks stemming from the sovereign-bank nexus, especially in the absence of a liquid secondary bond market.15 Staff's stress tests suggest that banks' ability to generate sufficient liquidity hinges on access to the BoA's liquidity facility (through which banks can pledge eligible assets for short-term liquidity). Without such access (for example, if banks happen to face liquidity and solvency issues simultaneously), several banks are found to experience significant liquidity shortfalls.

- **Real estate sector and unhedged FX exposures:** The rapid increase in banks' lending to the real estate sector, which also accounts for two-thirds of unhedged lending and has seen significant price increases, represent risks to financial stability.

- **Climate and cyber risks**, including related to significant banking sector exposures to natural disasters (BoA, 2024) and recent cases of cyber-attacks, remain areas for concern.

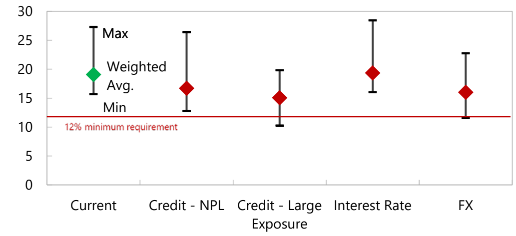
[13] Except for one bank with an LCR in significant foreign currencies of 83 percent as of May 2024.

[14] Bank of Albania's Financial Stability Report for H2 2023.

[15] April 2022 Global Financial Stability Report, Chapter 2.

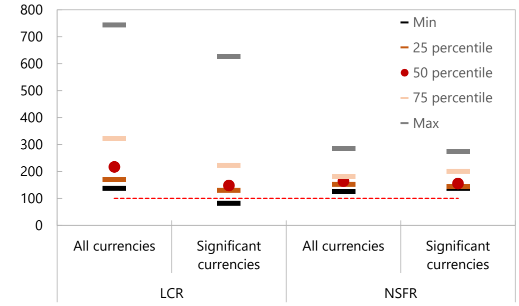
Figure 18. Albania: Banking Sector Selected Indicators and Stress Test Results

Capital Adequacy Ratio Under Stress Scenarios
(Percent)



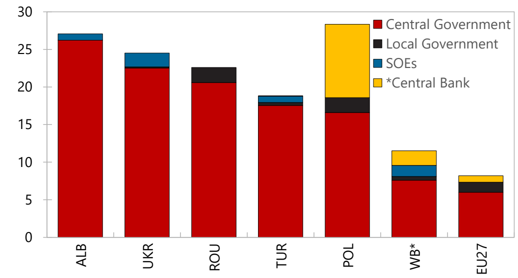
Sources: BoA and IMF staff calculations.
Note: Stress test results under four separate scenarios involving 1) 100% increase in NPLs (credit - NPL), 2) a default of the largest borrower of each bank (large exposure), 3) a 150-basis-point increase in interest rate (interest rate), and 4) a 25 -percent depreciation of the lek (FX).

Liquidity Coverage and Net Stable Funding Ratio
(Percent)



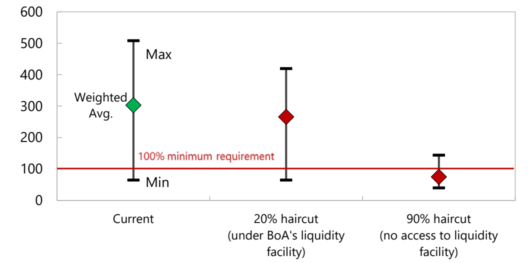
Sources: BOA and IMF staff calculations.

Largest Public Sector-Bank Nexus
(Percent of banks' assets; by public entity, including loans and debt securities)



Sources: MFS and IMF staff calculations.
Note: Western Balkans (WB*) average excludes Albania and Montenegro. Data refer to December 2023, based on reporting to the MFS.

Liquidity Coverage Ratio Under Stress Scenarios
(Percent)



Sources: BoA and IMF staff calculations.
Note: Stress test results under two separate scenarios assuming 1) 20% haircut on lek denominated sovereign government bonds (under BoA's liquidity facility), and 2) 90% haircut (without access to BoA's facility). The computed LCR refers to the LCR in lek.

32. **Banking sector resilience can be enhanced by strict regulatory enforcements and greater alignment with EU frameworks.** Cases of banks not meeting macroprudential requirements and large exposure limits call for continued efforts to ensure strict compliance, including by asking banks with shortfalls to temporarily suspend dividends. If needed, further actions could include the obligation to prepare a capital conservation plan and restrictions, complemented by prudent monitoring of loan origination practices. Following significant progress in achieving regulatory equivalence to the European Banking Authority (EBA)—with several areas currently assessed to be highly equivalent based on EBA's methodology (see Annex I)—continued efforts are needed to tackle remaining issues.

33. **Strengthening the macroprudential toolkit would allow monetary policy to continue focusing on price stability without interference of financial stability considerations.**

- **Borrower-based measures to tame the cycle:** Following the BoA's commendable real estate data collection efforts, consideration should be given to introducing loan-to-value (LTV) and debt-to-income (DTI) requirements, to help mitigate the rapid expansion of credit in the sector. Given the high share of unhedged FX loans, such requirements could differentiate between domestic and FX loans.

- **Capital-based measures to enhance resilience:** The BoA has appropriately raised the counter-cyclical capital buffer (CCyB) from zero to 0.25 percent in June 2024 (to take effect in June 2025).

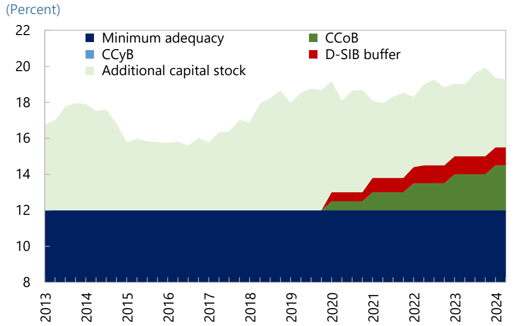
Financial stability could be further strengthened by moving towards a positive neutral rate for the CCyB (Box 3), alongside finalizing the systemic risk buffer (SyRB) framework. With Albania's already high capital requirements and recently completed phase-in of structural capital buffers, consideration could be given to reconstituting part of the existing requirements as releasable buffers when the latter are introduced, to avoid double covering the same risks and to minimize the impact on credit provision.

Box 3. Albania: Introducing a Positive Neutral Countercyclical Capital Buffer[1]

Forthcoming analysis explores the suitability and potential design of a positive neutral CCyB framework in Albania. While a range of macroprudential tools have been introduced since 2020,[2] resilience could be further enhanced by a complementary build-up of releasable buffers to further support financial stability in crisis situations.[3]

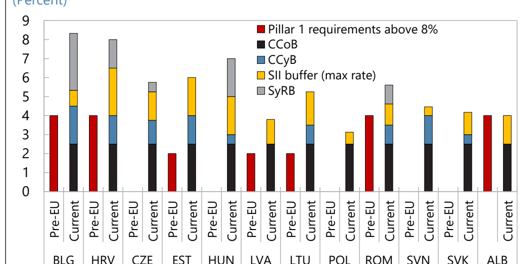
All macro-financial and legal feasibility preconditions for the implementation of a positive neutral CCyB framework are assessed to be in place in Albania. Drawing on stress test results including those conducted by the BoA, the analysis suggests a positive neutral CCyB rate in the range of 100–200 basis points. The analysis explores a partially capital-neutral option, by a simultaneous reduction of the 12 percent Pillar 1 capital requirement. This approach would be broadly consistent with that of some EU countries that used to have higher minimum capital requirements prior to EU accession and now display combined buffer requirements above the EU average. The BoA should base its future risk-based CCyB decision-making on a composite or suite of indicators, to support transparency for market participants and banks' capital planning.

Actual Rates of Macroprudential Tools
(Percent)



Sources: Bank of Albania and authors' calculations.

Combined Buffer Requirements: Selected Countries
(Percent)



Sources: European Systemic Risk Board and Bank of Albania.
Note: Pillr 1 rquirements above 8% indicates higher national capital prior to the adoption of the EU Single Rulebook that sets out a uniform 8% total capital requirements in all EU Member States. The chart does not include sectorial SyRBs (HUN, LTU,SVK). The current CBR refers to late 2024. SII buffers refer to the average rate applied in the country.

[1] Based on Fandl, De Nora and Topi (Forthcoming, IMF WP).
[2] In addition to the 12 percent minimum requirement (relative to 8 percent for the EU), banks are currently subject to a capital conservation buffer (CCoB, 2.5 percent in 2024) and buffers for systemically important banks (SII buffer, 0.5–1.5 percent).
[3] See Couaillier and others (2022).

34. Further reforms are needed to bolster resilience to liquidity, climate, and cyber risks. Continued efforts to develop the secondary bond market as well as the secured money market, including through a market-wide adoption of a standard International and Swaps and Derivatives Agreement (ISDA), are important for improving market participants' resilience to liquidity risks. Until markets mature, contingency planning is crucial for banks to manage liquidity stress and the feasibility of such plans should be ensured through supervisory dialogue. Building on recent traction in climate risk assessment, data gap identification, and regulatory framework preparation, momentum should be maintained with the aim to develop a national taxonomy in line with EU standards. Progress in mitigating cyber risks should be sustained, including through finalizing regulatory frameworks, as part of the BoA's 2024–2026 Medium-Term Strategy.

35. The NBFI sector requires enhanced supervision and regulation. Recent consumer protection cases highlight the importance of well-regulated institutions for preserving integrity. The BoA's proposals to tighten regulations on NBFIs, including in the areas of consumer protection and risk management, are a welcome step. As part of the latter, a new draft regulation on microfinance lending introduces a cap on the number of loans per borrower, stricter rules on the calculation of debt-to-income ratios, and more stringent verification requirements for borrower income. The Albanian Financial Supervisory Authority (AFSA) should enhance data collection and risk monitoring and make use of available instruments for effective interinstitutional cooperation, including through the Financial Stability Advisory Group (FSAG), which has not convened for 3 years.

36. Authorities' Views. The BoA assesses that the banking system can withstand significant shocks while stressing that it is closely monitoring real estate sector developments and banks' compliance with capital requirements. The BoA sees benefits in introducing borrower-based measures as well as in moving towards a positive neutral CCyB and (potentially sector-specific) SyRB frameworks, while noting the need to carefully calibrate the requirements to minimize their impact on credit provision. It stressed that continued efforts have been made to ensure EBA equivalence and to further strengthen NBFI regulations, including on consumer protection.

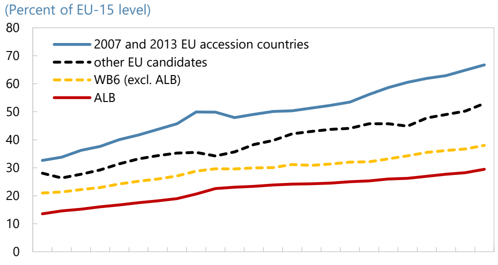
D. Structural Policies: Maximizing Gains from the EU Accession Process

37. Deeper reforms are needed to accelerate income convergence to the EU. There is still a long way to go: with Albania's potential growth estimated at 3½ percent (and assuming EU growth rate of around 1½ percent), convergence to EU-15 would take more than half a century (see Box 4). Demographic developments imply that boosting medium-term growth becomes increasingly dependent on productivity gains. But Albania's labor productivity in 2023 was less than half of the CESEE average and just 13 percent of EU-15 average, and total factor productivity (TFP) is lower in Albania than in selected EU-15 countries.

Figure 19. Albania: Economic Convergence

GDP per Capita, in PPP Terms

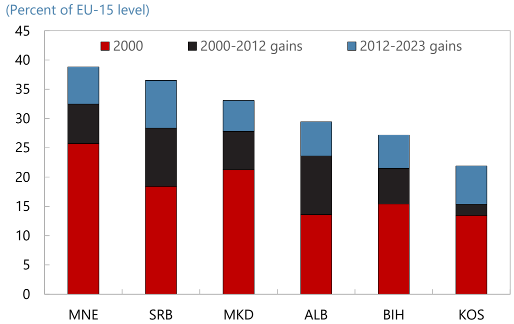
(Percent of EU-15 level)



Sources: IMF WEO and IMF staff calculations.
Notes: The weighted averages are: EU-15 = 1995 EU founding members; 2007 and 2013 EU accession countries = three most recent EU members Bulgaria, Romania, and Croatia; other EU candidates = Georgia, Moldova, Turkiye, Ukraine; WB6 = Western Balkan Six.

Gains in GDP per Capita, 2000-2023

(Percent of EU-15 level)



Sources: IMF WEO database and IMF staff calculations.

38. A multifaceted approach is required to lift firm productivity growth (Box 5).

- **Removing barriers to firm growth.** Most workers are employed in small and medium enterprises (SMEs), which often lack the resources to upgrade their capital stock and invest in technology, innovation, and workforce development. Removing tax benefits for firms with turnover below 14 million leks (Section A) would eliminate a disincentive to growth. Promoting access to bank lending through better credit report systems, improved secured transactions and insolvency regimes (World Bank, 2024), and developing Albania's early-stage corporate bond markets would enable businesses to raise more long-term funds for expansion. Continued strengthening of data quality and timeliness would further improve the assessment of economic developments (Annex V).

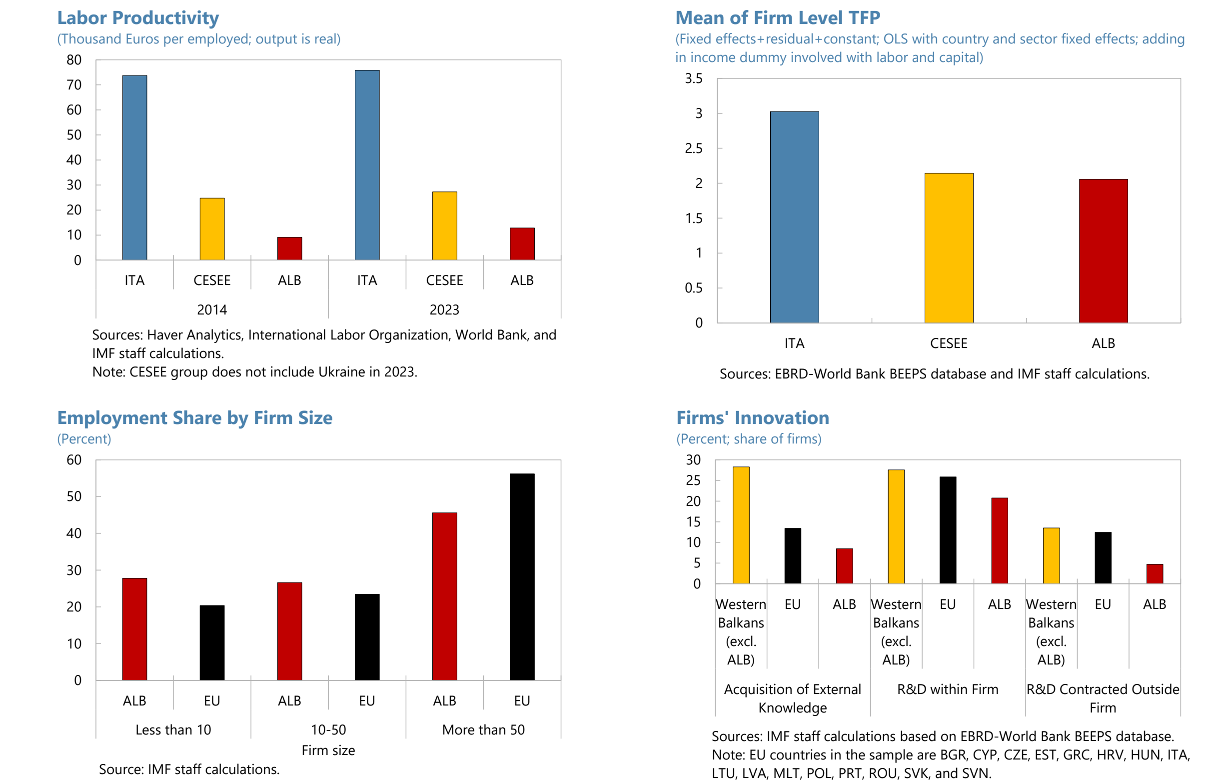
- **Fostering transition to higher value-added production and integration into global value chains.** To benefit from these opportunities, firms need to step up investments in existing technology and R&D. The creation of innovation networks across firms and other research institutions could facilitate knowledge acquisition and innovation diffusion across Albanian firms.

- **Improving skills availability.** Full implementation of the dual vocational education and training system, updated training programs with an eye on labor market needs, as well as advancing on the digital agenda would improve skills. Expanding access to childcare could boost female labor force participation (see IMF Albania 2023 AIV). At the same time, strengthening governance could reduce the incentive for emigration and attract foreign workers.16

- **Overcoming infrastructure bottlenecks to improve connectivity and benefit from domestic energy production.** Although several projects have been initiated, including the construction of a new airport and touristic port, the transport network still lags EU economies. Hydropower production represents an important, and clean, source of energy for the Albanian economy. However, it is susceptible to weather conditions (e.g., draughts) and continued diversification into other types of renewable energy with storage capacities will be essential for energy security.

[16] See Atoyan et al. (2016) and OECD (2022).

Figure 20. Albania: Productivity Challenges

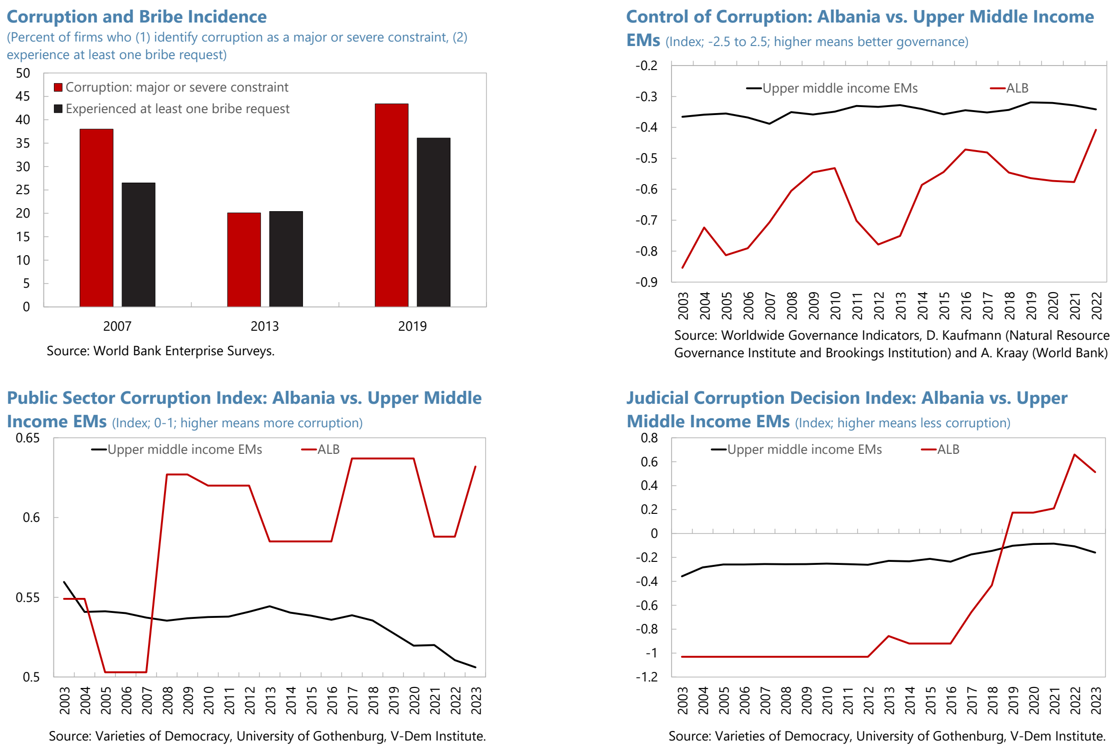


39. Strengthening the business environment would require further efforts in tackling governance shortcomings. A recent survey of 65 foreign companies in the Western Balkans finds that poor governance and weak institutions are the primary challenges to operating in the region. A recent EC report also outlines several areas in which further reforms are needed, including judicial integrity and efficiency, anticorruption and AML/CFT reforms.

- **Judicial reforms**. While vetting is nearing completion, the dismissal of around one-third of sitting judges is hampering service delivery in the justice system. The National Strategy for Reducing Case Backlogs for 2024–27 should be forcefully implemented and work on setting up an electronic integrated case management system should continue. Critical vacancies remain on the High Judicial Council and High Prosecutorial Council and appointment of new non-magistrate members to these bodies should be fully transparent, merit-based, and competitive.

- **Anti-corruption.** The draft 2024–30 Anticorruption Strategy, which seeks to incorporate recommendations by the Council of Europe's Group of States Against Corruption (GRECO), should be adopted as planned by the end of 2024 and concerted effort is required to ensure timely implementation of its Action Plan. Albania's Special Anticorruption Structure (SPAK) should continue to be provided with the resources necessary for its mandate.

Figure 21. Albania: Governance Indicators



Note: The four charts consider perception-based indicators and as such could provide guidance but should not be the sole base for policy messages. The public sector corruption index measures the frequency of employees receiving bribes and stealing public funds; the Judicial corruption index refers to individuals or businesses having to pay bribes to influence the speed or decision of the judicial process. The quantification of both the V-Dem Institute indicators is based on experts' judgement (V-Dem Institute WP 139).

- **AML/CFT.** Albania should continue with the timely implementation of its 2024–30 National Strategy for the Prevention of Money Laundering and Financing of Terrorism. Priority areas include mitigation of risks identified in the 2023 National Risk Assessment, implementation of the 2024–27 Action Plan, and mitigating risks associated with cross-border outlier financial flows. AML measures should continue to bolster financial investigations, address organized crime, establish an asset recovery office, and enhance confiscation measures. The AML framework should also be leveraged to support efforts to improve tax compliance and address tax crimes.

40. **Authorities' Views.** The authorities noted that the reform agenda of the EU Growth Plan would improve the business environment, and boost investment in infrastructure, climate adaptation and human capital. There has been significant interest in the EU co-funded youth guarantee scheme and more funds are being allocated to vocational training schools. In addition to tourism, agriculture and energy are seen as key sectors for development, and the authorities noted that there is significant interest by foreign investors in the country. They stressed that important progress had been made on rule of law reforms, with the Anticorruption Strategy to be adopted by end-2024.

Box 4. Albania: The Effect of EU Integration on Convergence

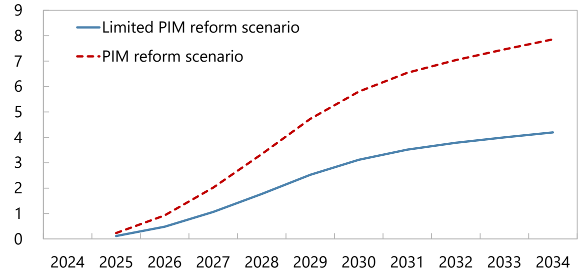
The EU accession process and EU Growth Plan for the Western Balkans could more than double the speed of Albania's convergence to EU income levels over the next 10–15 years through investments, reforms and integration into the EU Single Market.

The EU will make available to the Western Balkans EUR 2 billion and EUR 1 billion in grants and concessional loans, respectively, for investments, and EUR 3 billion of concessional loans for direct budget support in 2024–27. If Albania succeeds in obtaining a proportional share, this would be equivalent to around EUR 900 million. Depending on public investment management quality, it could cumulatively raise Albania's GDP level by between 4.2 and 7.9 percent over the next decade (assuming that it does not replace other investment spending).

Combining the additional funding with the required reforms under the Growth Plan and integration into the EU Single Market, the gains to GDP per capita could exceed 30 percent over the next 15 years, a doubling of the speed of convergence compared to the baseline (see IMF, 2024).[1]

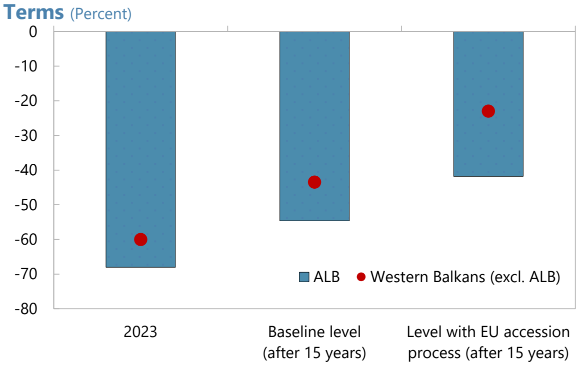
The impact of the Growth Plan and EU accession will depend on the depth of integration and reforms. New EU member states with better access to long-term finance, a more educated labor force, and already better integrated through value chains, registered higher growth and productivity gains (IMF, 2024).

Effect of EU Growth Plan Funds on GDP
(Cumulative percent changes in GDP)



Sources: IMF WEO database and IMF staff calculations.
Notes: Using the same methodology as Batini et al (2014), we estimate a first-year fiscal multiplier ranging between 0.3 (without enhancements to PIM) and 0.6 (with stronger PIM), which slightly increases in the second year and then gradually declines to a permanent impact of 0.1 and 0.2, respectively, from the fifth year post-investment.

Western Balkans Gap to EU-27 GDP Per Capita in PPP Terms (Percent)



Sources: IMF REO (2024) and IMF staff calculations.

[1] IMF Regional Economic Outlook Europe (2024): Note 2: Accelerating Europe's Income Convergence through Further Integration.

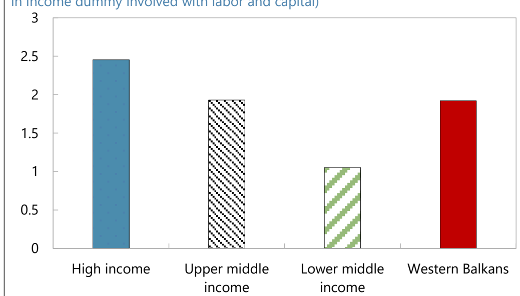
Box 5. Albania: Productivity Challenges in the Western Balkans[1]

Using firm-level data from the EBRD-EIB-WB Enterprise Survey 2018-2020, which includes quantitative and perception-based indicators on almost 28,000 enterprises in 41 countries, the analysis looks at drivers of total factor productivity in emerging market economies, including the Western Balkan countries.

Total factor productivity (TFP) is estimated for each firm, controlling for country and sector fixed effects. TFP is strongly correlated with firm size, investment in adoption of new technology and innovation in the past 3 years, and access to skilled workers and finance. Older companies (age) tend to be less productive, indicating the importance of enabling (potentially more productive) new firms to enter the market. Splitting the sample according to country income groups, confirms that a major hurdle for upper middle-income countries like Albania is availability of skilled workers and, to some extent, access to finance. Investment in technology adoption and innovation does not seem to play a major role in middle-income countries, but this result may be driven by the nature of the dataset, which only considers cross-country differences in the level of TFP. It may also indicate that the main challenge for firms in these economies is to catch up with the technological frontier (through adopting existing technologies) rather than pushing the knowledge frontier.

Mean of Firm Level TFP by Country Group

(Fixed effects+residual+constant; OLS with country and sector fixed effects; adding in income dummy involved with labor and capital)



Sources: EBRD-World Bank BEEPS database and IMF staff estimation.

Estimation Results: Dependent Variable TFP

	All sample	High income	Upper middle-income	Lower middle-income
Age	(-)***	(-) ***	(-) **	(-) **
Size	(+)***	(+)***	(+)***	(+)***
Difficult Access to Finance	(-)***		(-) **	(-)***
Difficult Access to Skilled workers	(-) **	(-) **	(-) **	
Innovation (investment in past 3 years)	(+) **	(+)**		
Obs.	8398	3141	2382	2875
Country/Sector Fixed effect	YES	YES	YES	YES

Source: IMF staff estimation.

Note: Only statistically significant results are reported. All variables are in logs except dummy variables. Size refers to value of sales.

[1] Based on Bartolini, Wang, and Zhu (forthcoming: IMF WP).

STAFF APPRAISAL

41. Thanks to prudent macroeconomic policies and booming tourism, the Albanian economy has turned in a strong performance in recent years. Output is now well above its pre-pandemic trend, public debt has declined significantly, inflationary pressures have been decisively contained, and external imbalances have shrunk considerably. The external position in 2024 is assessed to be moderately stronger than the level implied by medium-term fundamentals and desirable policy settings. GDP per capita, however, is just a quarter of the EU-15 level, amid rapid population aging, emigration, low productivity, and governance shortcomings.

42. Growth is expected to remain robust amid balanced risks. Real GDP growth is forecast at 3.6 percent in 2024, and around 3½ percent in the medium-term, sustained by domestic demand and tourism. Inflation (eop) is projected at 2 percent in 2024, sustainably converging to the

3 percent target in 2026. Risks to the outlook are broadly balanced, with the potential upside from stronger-than-expected tourism and structural reforms in the context of EU accession weighed against geopolitical, exchange rate reversal, real estate downturn, and social unrest risks.

43. Maintaining a modest annual primary surplus alongside continued efforts to strengthen debt management would reinforce fiscal resilience. To this end, sustained revenue reforms will be needed to address rising spending needs and support inclusive growth. A strengthened IT infrastructure, improved data utilization, and enhanced capacity would help close compliance gaps. Rationalizing the tax structure and reducing exemptions would increase efficiency and expand the tax base. Efforts should resume to streamline the tax regime for self-employed professionals, in conjunction with the removal of the zero-income tax rate for small businesses. The groundwork for the introduction of a new property tax law should be completed in a timely manner. Public investment and fiscal risk management reforms, particularly in relation to SOEs and PPPs, remain critical to fiscal transparency and credibility.

44. Uncertainty around the outlook calls for a continued data-dependent approach to monetary policy. With inflation below target, the 25-basis point cut by the BoA in November was appropriate. Absent significant inflationary shocks, there may be scope for a further modest reduction in the policy rate in 2025 to reduce the risk of de-anchoring inflation expectations. As the sustained lek appreciation is assessed to be largely driven by fundamentals, consideration should be given to allowing the exchange rate to adjust more flexibly, with intervention serving only as a complementary tool to address non-fundamental fluctuations. Further reserve accumulation should carefully weigh the costs and benefits, including risks to the central bank balance sheet and implications for monetary policy transmission and financial market development.

45. Continued supervisory vigilance is vital given pockets of vulnerability, related to rapid growth of real estate lending and banks' large borrower and sovereign exposures. Such vulnerabilities call for stronger supervision including through ensuring strict regulatory compliance and greater alignment with EU standards and enhancing the macroprudential toolkit through borrower-based and capital-based measures. Deepening financial markets, addressing climate and cyber risks, and better oversight of NBFIs are key to enhancing resilience and preserving integrity.

46. Deeper reforms are needed to maximize the gains from the EU accession process. Policies should focus on fostering integration into global value chains, removing barriers to firm growth such as distortionary tax incentives, and promoting access to bank lending by reducing information asymmetries to facilitate investment and adoption of existing technology. Updating education and training programs, advancing on the digital agenda, and boosting labor force participation through expanding access to childcare, would provide a lasting boost to Albania's growth prospects. Continued infrastructure investments and governance reforms, such as the adoption and implementation of the 2024–30 Anticorruption Strategy, are top priorities.

47. It is recommended that the next Article IV consultation be held on the standard 12-month cycle.

Table 1. Albania: Basic Indicators and Macroeconomic Framework, 2020–29

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Proj.					
	(Percent change)									
Real sector										
Real GDP	-3.3	9.0	4.8	3.9	3.6	3.5	3.5	3.5	3.5	3.5
Domestic demand contribution	-3.7	9.3	4.6	0.9	8.3	5.1	4.6	4.5	4.5	4.6
Consumption	-3.7	3.5	4.6	2.9	5.9	3.0	2.8	2.7	2.8	2.9
Investment (Incl. inventories and stat. disc)	0.0	5.8	0.0	-2.0	2.4	2.0	1.8	1.8	1.7	1.7
External demand contribution	0.4	-0.3	0.2	3.0	-4.7	-1.6	-1.1	-1.0	-1.0	-1.1
Consumer Price Index (eop)	1.1	3.7	7.4	3.9	2.0	2.2	3.0	3.0	3.0	3.0
Consumer Price Index (avg.)	1.6	2.0	6.7	4.8	2.2	2.8	2.8	3.0	3.0	3.0
GDP deflator	0.0	3.4	9.9	6.1	3.4	1.9	3.0	3.0	3.0	3.0
	(Percent of GDP)									
Saving-investment balance										
Foreign savings	8.6	7.6	5.9	1.2	3.4	3.7	3.9	3.5	3.6	3.7
National savings	16.6	19.6	19.8	22.9	21.7	22.2	22.4	23.5	23.7	23.9
Public	-1.0	1.7	1.7	3.0	3.1	2.5	2.4	2.3	2.3	2.3
Private	17.6	17.8	18.2	19.9	18.6	19.7	20.1	21.2	21.4	21.6
Investment (incl. Inventories and stat. disc.)	25.2	27.2	25.7	24.0	25.2	25.9	26.4	27.0	27.3	27.6
Public	6.7	7.4	5.3	5.0	5.6	5.9	5.7	5.6	5.5	5.3
Private	18.5	19.8	20.5	19.0	19.6	20.0	20.7	21.4	21.8	22.4
Fiscal sector										
Total revenue and grants	25.7	27.4	26.6	27.2	28.1	27.9	27.9	28.0	28.1	28.1
Tax revenue	18.2	19.5	19.5	19.2	19.5	19.8	19.9	20.0	20.1	20.2
Total expenditure	32.4	31.9	30.3	28.5	29.8	30.4	30.5	30.6	30.6	30.5
Primary	30.3	30.0	28.4	26.5	27.7	27.8	27.9	28.0	28.1	28.1
Interest	2.1	1.9	1.8	2.0	2.2	2.6	2.6	2.6	2.5	2.3
Overall balance 1/	-6.7	-4.6	-3.6	-1.3	-1.7	-2.5	-2.6	-2.6	-2.5	-2.3
Primary balance	-4.6	-2.7	-1.8	0.7	0.5	0.0	0.0	0.0	0.0	0.0
Financing	6.7	4.6	3.6	1.2	1.7	2.5	2.6	2.6	2.5	2.3
Of which: Domestic	2.9	-1.0	4.1	-0.3	2.6	1.8	1.6	1.4	1.1	0.8
Of which: Foreign	3.7	5.6	-0.4	1.5	-0.8	0.7	1.0	1.2	1.3	1.5
General Government Debt 2/ 3/	75.4	74.8	65.2	58.4	56.4	55.5	54.5	53.7	52.8	51.8
Domestic	40.4	38.3	35.2	32.2	32.1	31.8	31.3	30.8	30.1	29.1
External	35.0	36.4	30.0	26.2	24.3	23.8	23.2	22.9	22.7	22.7
	(Percent change)									
Monetary indicators										
Broad money growth	10.5	8.6	5.2	2.0	7.1	5.4	6.6	6.7	6.7	6.6
Private credit growth	8.9	8.6	7.0	5.0	10.7	5.4	6.6	6.7	6.6	6.6
	(Percent of GDP, unless indicated otherwise)									
External sector										
Trade balance (goods and services)	-14.4	-13.3	-10.3	-5.4	-9.0	-9.6	-9.8	-9.3	-9.4	-9.6
Current account balance	-8.6	-7.6	-5.9	-1.2	-3.4	-3.7	-3.9	-3.5	-3.6	-3.7
Gross international reserves (billions of Euros)	3.9	5.0	5.0	5.8	6.1	6.7	7.4	8.0	8.4	9.0
(In months of imports of goods and services)	9.6	8.8	6.9	7.3	6.3	6.2	6.3	6.3	6.3	6.3
(In percent of ARA metric) 4/	188	215	197	213	131	135	140	141	140	141
Memorandum items										
Output gap	-4.0	-0.1	0.6	0.5	0.3	0.1	0.0	0.0	0.0	0.0
Real GDP (growth per capita)	-2.8	10.0	6.1	5.0	4.6	4.5	4.6	3.5	3.5	3.5
Nominal GDP (in billions of lek)	1,656	1,867	2,150	2,370	2,539	2,678	2,855	3,045	3,248	3,463
Exchange rate Lek/Euro (avg.)	124	122	119	108	..	..	..	..	..	..
Exchange rate Lek/Euro (eop, annual growth)	1.6	-2.4	-5.4	-9.1	..	..	..	..	..	..

Sources: Albanian authorities; and IMF staff estimates and calculations.

1/ The fiscal balance includes guarantees for new loans to the energy sector from 2021, and potential calls of COVID-19 related guarantees from 2022.
2/ Public debt refers to the general government and includes all public domestic and external guarantees for energy and non-energy sector debt as well as arrears from central and local government and VAT refund arrears.
3/ The 2021 SDR allocation equivalent at present to $170 million is recorded with the Bank of Albania and is used as a credit line until 2023 and for budget financing afterwards. Accordingly, public debt and the TSA account only include the SDR allocation starting 2024.
4/ The de facto exchange rate regime was reclassified to crawl-like in 2024 in line with the IMF's backward-looking statistical methodology.

Table 2a. Albania: General Government Operations, 2020–29

(Percent of GDP)

	2020	2021	2022	2023	2024	2025		2026	2027	2028	2029
							Budget				
								Proj.			
Total revenue and grants	25.7	27.4	26.6	27.2	28.1	27.9	28.8	27.9	28.0	28.1	28.1
Tax revenue	18.2	19.5	19.5	19.2	19.5	19.8	20.6	19.9	20.0	20.1	20.2
VAT	7.9	8.7	8.9	8.1	8.4	8.5	9.0	8.6	8.6	8.7	8.7
Profit tax	1.7	1.9	2.2	2.7	2.4	2.4	2.5	2.4	2.4	2.4	2.4
Excise tax	2.7	2.8	2.5	2.5	2.5	2.6	2.6	2.6	2.6	2.6	2.6
Customs duties	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Personal income tax	2.0	2.1	2.1	2.4	2.5	2.5	2.7	2.5	2.5	2.6	2.6
National taxes	2.2	2.3	2.1	1.7	1.9	1.9	1.9	1.9	1.9	1.9	1.9
Local government revenue 1/	1.3	1.4	1.3	1.3	1.5	1.5	1.6	1.5	1.5	1.5	1.5
Social insurance contributions	5.9	5.9	5.7	6.1	6.3	6.3	6.5	6.4	6.3	6.4	6.4
Non-tax revenue	1.1	1.2	1.0	1.0	1.6	1.0	1.0	1.0	1.0	1.0	1.0
Grants	0.5	0.7	0.4	0.9	0.7	0.7	0.7	0.7	0.7	0.7	0.7
Total expenditure	32.4	31.9	30.3	28.5	29.8	30.4	31.4	30.5	30.6	30.6	30.5
Current expenditure	25.5	24.9	24.5	23.2	24.2	24.5	25.0	24.7	24.9	25.0	25.1
Personnel cost	4.6	4.5	3.9	4.2	4.7	4.8	4.9	4.8	4.8	4.9	4.9
Interest	2.1	1.9	1.8	2.0	2.2	2.6	2.6	2.6	2.6	2.5	2.3
Operations & maintenance	3.0	3.2	3.2	3.0	3.0	2.8	2.9	2.9	2.9	3.0	3.1
Subsidies	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Social insurance outlays	10.8	10.7	10.1	9.6	9.8	9.9	10.1	10.0	10.1	10.2	10.3
Local government expenditure	3.1	2.8	2.7	2.9	3.1	3.4	3.4	3.3	3.3	3.3	3.3
Social protection transfers	1.7	1.6	1.4	1.3	1.3	1.1	1.1	1.1	1.1	1.1	1.1
Other current transfers	0.1	0.2	1.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	6.1	6.9	5.3	5.0	5.5	5.8	6.2	5.7	5.6	5.5	5.3
of which,											
Domestically financed	2.4	4.1	3.0	3.8	4.2	4.3	4.3	4.4	4.3	4.2	4.0
Foreign financed	1.5	1.4	0.9	0.6	1.0	1.3	1.7	1.3	1.3	1.3	1.3
Earthquake spending	1.0	1.4	1.3	0.7	0.3	0.2	0.2	0.0	0.0	0.0	0.0
Lending minus repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve and contingency funds	0.7	0.0	0.0	0.0	0.1	0.2	0.2	0.1	0.1	0.1	0.1
Overall balance	-6.7	-4.6	-3.6	-1.3	-1.7	-2.5	-2.6	-2.6	-2.6	-2.5	-2.3
Financing	6.7	4.6	3.6	1.2	1.7	2.5	2.6	2.6	2.6	2.5	2.3
Domestic	2.9	-1.0	4.1	-0.3	2.6	1.8	2.3	1.6	1.4	1.1	0.8
Privatization receipts	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowing	2.9	2.6	1.2	0.9	2.1	1.3	1.9	1.5	1.5	1.2	0.9
Change in general gov. deposits	0.0	-3.9	1.9	-1.7	0.4	0.5	0.4	0.1	-0.1	-0.1	-0.1
Other	0.0	0.3	0.9	0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	3.7	5.6	-0.4	1.5	-0.8	0.7	0.3	1.0	1.2	1.3	1.5
Gross borrowing	7.3	7.3	1.3	3.9	1.1	4.2	4.2	2.0	4.1	3.9	3.9
Amortization	3.7	1.8	1.8	2.4	1.9	3.4	3.9	1.1	3.0	2.6	2.0
Memorandum Items:											
Primary balance	-4.6	-2.7	-1.8	0.7	0.5	0.0	0.0	0.0	0.0	0.0	0.0
Cyclically-adjusted primary balance	-2.6	-2.6	-2.1	0.4	0.3	0.0	n.a.	0.0	0.0	0.0	0.0
Government TSA	0.5	3.9	0.7	2.3	1.7	1.1	1.4	1.0	1.0	1.0	1.0
General government debt 2/	75.4	74.8	65.2	58.4	56.4	55.5	55.8	54.5	53.7	52.8	51.8
Domestic	40.4	38.3	35.2	32.2	32.1	31.8	32.9	31.3	30.8	30.1	29.1
External	35.0	36.4	30.0	26.2	24.3	23.8	22.9	23.2	22.9	22.7	22.7
Direct general government external debt	32.9	34.8	28.5	25.1	23.3	22.9	n.a.	22.3	22.0	21.8	21.8
Government guaranteed external debt	2.1	1.7	1.5	1.1	0.9	0.9	n.a.	0.9	0.9	0.9	0.9
Nominal GDP (billions of leks)	1,656	1,867	2,150	2,370	2,539	2,678	2,621	2,855	3,045	3,248	3,463

Sources: Albanian authorities; and IMF staff estimates and calculations.

1/ Includes the property tax, the simplified profit tax for small businesses, and other local taxes.

2/ The stock of general government debt includes public guarantees (domestic and external) and arrears from central and local government and VAT refund arrears. The 2021 SDR allocation equivalent at present to $170 million is recorded with the Bank of Albania and is used as a credit line.

Table 2b. Albania: General Government Operations, 2020–29
(Billions of lek)

	2020	2021	2022	2023	2024	2025		2026	2027	2028	2029
							Budget				
								Proj.			
Total revenue and grants	425.9	511.0	572.8	643.7	714.1	746.0	754.6	797.4	854.1	913.8	974.2
Tax revenue	301.0	364.7	418.5	454.2	496.3	531.3	540.0	568.3	610.0	653.2	699.2
VAT	130.4	161.5	191.4	192.3	213.8	228.3	236.0	244.8	263.3	282.2	302.2
Profit tax	28.4	35.6	47.7	64.6	59.7	65.5	65.7	69.8	74.5	79.1	84.1
Excise tax	44.5	51.6	53.5	58.4	64.4	68.5	67.0	73.0	78.6	84.6	90.8
Customs duties	6.2	7.5	8.4	9.1	9.3	11.1	11.1	11.8	12.6	13.6	14.5
Personal income tax	33.7	39.3	45.0	57.9	64.4	67.0	70.0	72.0	77.6	83.4	89.6
National taxes	35.8	42.5	44.8	40.2	47.6	51.0	49.3	54.4	58.3	62.2	66.3
Local government revenue 1/	22.0	26.7	27.6	31.7	37.2	39.8	40.8	42.3	45.1	48.0	51.6
Social insurance contributions	97.7	110.9	122.8	144.5	159.4	169.9	169.9	181.3	193.2	206.3	219.9
Non-tax revenue	19.0	22.3	21.9	22.6	41.4	25.8	25.8	27.5	29.3	31.3	33.4
Grants	8.3	13.0	9.5	22.4	17.0	19.0	19.0	20.3	21.6	23.0	24.6
Total expenditure	536.3	596.3	651.0	674.9	757.9	813.8	822.7	870.6	932.1	994.1	1055.2
Current expenditure	422.4	464.8	527.1	550.8	614.1	655.0	655.0	705.3	758.5	812.2	868.8
Personnel cost	76.9	83.3	83.9	100.5	120.2	127.7	127.7	137.3	147.1	158.5	170.0
Interest	34.4	35.8	39.6	47.6	55.5	68.6	68.6	74.3	78.2	80.5	81.2
Operations & maintenance	48.9	59.4	68.5	70.5	75.9	75.1	75.1	81.5	89.5	96.4	105.8
Subsidies	1.5	1.4	1.7	1.9	1.9	1.9	1.9	1.9	2.2	2.4	2.4
Social insurance outlays	179.4	199.5	216.5	226.8	248.9	263.8	263.8	285.4	306.6	330.7	356.4
Local government expenditure	51.6	52.6	58.7	68.8	79.4	89.9	89.9	94.9	101.3	107.9	115.2
Social protection transfers	28.7	29.1	30.3	30.9	32.3	28.2	28.2	30.1	33.8	35.9	37.9
Other current transfers	1.0	3.7	27.9	3.8	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Capital expenditure	101.7	128.0	112.9	119.1	140.4	154.0	161.5	161.4	169.7	178.1	182.5
of which,											
Domestically financed	60.6	75.8	65.5	89.1	107.7	114.0	112.0	124.7	131.4	136.8	138.8
Foreign financed	24.7	25.7	18.7	13.8	24.7	35.1	43.6	36.7	38.3	41.3	43.6
Earthquake spending	16.4	26.5	28.8	16.2	8.0	5.0	5.0	0.0	0.0	0.0	0.0
Lending minus repayment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Reserve and contingency funds	12.1	0.5	0.0	0.0	3.5	4.8	6.2	3.8	3.8	3.8	3.8
Overall balance	-110.4	-85.3	-78.2	-31.2	-43.9	-67.9	-68.1	-73.2	-78.0	-80.3	-80.9
Financing	110.4	85.3	78.2	28.2	43.9	67.9	68.1	73.2	78.0	80.3	80.9
Domestic	48.9	-18.7	87.8	-7.3	65.4	48.7	59.8	45.4	41.6	37.0	29.4
Privatization receipts	0.2	0.3	0.2	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Net borrowing	47.8	48.7	26.2	20.7	54.0	34.0	50.0	43.7	44.4	38.8	31.2
Change in general gov. deposits	0.8	-72.7	41.5	-41.0	11.4	14.7	9.8	1.7	-2.8	-1.8	-1.8
Other	0.0	5.0	20.0	13.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Foreign	61.5	104.0	-9.5	35.5	-21.5	19.2	8.2	27.8	36.3	43.3	51.5
Gross borrowing	121.4	137.2	28.3	91.7	27.8	111.5	111.3	57.9	126.2	127.0	134.7
Amortization	61.3	33.2	38.4	56.4	49.3	92.3	103.1	30.1	89.9	83.7	68.1
Memorandum Items:											
Primary balance	-76.0	-49.5	-38.6	16.4	11.6	0.7	0.5	1.1	0.2	0.2	0.3
Government TSA balance	7.8	72.6	14.5	55.6	44.2	29.5	37.2	27.7	30.5	32.3	34.1
General government debt 2/	1,248	1,396	1,402	1,383	1,433	1,487	1,463	1,557	1,636	1,715	1,795
Domestic	668.3	715.8	755.8	762.2	816.2	850.2	863.2	893.9	938.3	977.1	1008.3
External	580.0	680.4	645.8	620.9	616.4	637.1	600.1	663.2	697.3	738.0	786.5
Direct general government external debt	544.4	648.8	613.4	596.0	592.6	612.2	n.a.	636.9	669.3	707.8	753.7
Government guaranteed external debt	35.5	31.5	32.3	25.0	23.9	24.8	n.a.	26.2	28.0	30.2	32.8

Sources: Albanian authorities; and IMF staff estimates and calculations.

1/ Includes the property tax, the simplified profit tax for small businesses, and other local taxes.

2/ The stock of general government debt includes public guarantees (domestic and external) and arrears from central and local government and VAT refund arrears. The 2021 SDR allocation equivalent at present to $170 million is recorded with the Bank of Albania and is used as a credit line.

Table 3a. Albania: Balance of Payments, 2020–29
(Percent of GDP)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Proj.			
Current account	-8.6	-7.6	-5.9	-1.2	-3.4	-3.7	-3.9	-3.5	-3.6	-3.7
Goods and services (fob)	-14.4	-13.3	-10.3	-5.4	-9.0	-9.6	-9.8	-9.3	-9.4	-9.6
Goods (fob)	-22.3	-25.1	-23.5	-20.7	-24.1	-25.3	-25.8	-25.5	-25.6	-25.8
Exports	5.9	8.3	10.7	8.4	7.2	8.1	8.1	8.1	8.1	8.1
Imports	28.2	33.4	34.2	29.0	31.4	33.4	33.9	33.6	33.8	33.9
Services	7.9	11.8	13.2	15.3	15.1	15.7	16.0	16.2	16.2	16.2
Exports	16.6	22.9	26.5	29.9	29.9	30.7	31.1	31.3	31.4	31.5
Imports	8.8	11.1	13.2	14.6	14.8	15.0	15.1	15.1	15.2	15.2
Primary Income	-1.6	-1.4	-1.7	-1.3	-1.0	-0.7	-0.7	-0.7	-0.7	-0.6
Compensation of employees (net)	1.7	1.9	2.4	2.4	2.7	3.0	3.0	3.0	3.0	3.1
Investment income (net)	-3.3	-3.3	-4.2	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7	-3.7
Other (net)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Secondary Income	7.5	7.1	6.2	5.4	6.6	6.5	6.5	6.5	6.5	6.5
General Government (net)	0.4	0.3	0.2	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Workers' Remittances (net)	5.0	5.0	4.6	4.2	4.8	4.8	4.8	4.8	4.8	4.8
Other private transfers (net)	2.0	1.8	1.4	1.1	1.7	1.7	1.7	1.7	1.7	1.7
Capital account	1.1	2.3	0.1	0.2	0.0	0.0	0.0	0.0	0.0	0.0
Financial account	-11.2	-10.2	-4.5	-4.5	-4.6	-6.0	-6.2	-5.3	-5.0	-5.3
Direct investment, net	-6.7	-6.4	-6.5	-5.7	-6.0	-6.0	-5.8	-5.8	-5.7	-5.6
Portfolio investment	-0.5	-0.6	3.2	1.5	3.1	2.0	3.2	3.3	3.2	1.6
Other investment	-4.1	-3.1	-1.1	-0.3	-1.7	-2.0	-3.6	-2.8	-2.5	-1.3
Errors and omissions	1.2	1.2	0.7	0.7	0.0	0.0	0.0	0.0	0.0	0.0
Net balance	3.7	4.9	-1.3	3.5	1.1	2.3	2.3	1.8	1.4	1.7
Reserve assets (reserve loss = +)	-4.9	-6.1	0.6	-4.2	-1.1	-2.3	-2.3	-1.8	-1.4	-1.7
Financing Gap	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
				(Percent change, unless otherwise noted)						
Memorandum items:										
Goods and Services										
Export value (fob)	-29.8	57.3	41.7	24.9	11.4	12.0	8.1	7.6	7.0	6.5
Import value (fob)	-19.8	37.0	26.8	11.5	21.4	12.4	8.4	6.3	7.2	6.9
Export volume	-27.4	41.4	28.3	23.8	6.3	10.1	6.2	5.5	4.9	4.4
Import volume	-19.5	23.7	11.7	10.6	16.6	9.4	5.8	3.7	4.5	4.2
Terms of trade	-9.1	17.5	8.7	-7.9	-5.1	-2.5	-0.3	-0.8	-0.6	-0.4
Gross reserves (millions of euros)	3,942	4,972	4,952	5,847	6,137	6,748	7,413	7,966	8,443	9,044
(in months of imports of goods and services)	9.6	8.8	6.9	7.3	6.3	6.2	6.3	6.3	6.3	6.3
(in percent of ARA metric) 1/	188	215	197	213	131	135	140	141	140	141
Gross external debt (millions of euros)	8,549	9,755	9,766	10,147	10,337	10,769	11,224	11,809	12,499	13,382
Gross external debt (percent of GDP)	63.9	64.0	53.9	46.2	41.0	39.8	38.7	38.2	37.9	38.0
Nominal GDP (millions of euros)	13,380	15,248	18,131	21,982	25,227	27,034	28,980	30,928	32,991	35,177

Sources: Albanian authorities; and IMF staff estimates.

1/ The de facto exchange rate regime was reclassified to crawl-like in 2024 in line with the IMF’s backward-looking statistical methodology.

Table 3b. Albania: Balance of Payments, 2020–29
(Millions of euros)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Proj.					
Current account	-1,153	-1,166	-1,064	-263	-868	-1,014	-1,137	-1,084	-1,185	-1,293
Goods and services (fob)	-1,931	-2,033	-1,868	-1,182	-2,273	-2,588	-2,833	-2,872	-3,103	-3,371
Goods (fob)	-2,983	-3,829	-4,269	-4,540	-6,089	-6,831	-7,471	-7,888	-8,451	-9,085
Exports	794	1,265	1,933	1,836	1,825	2,194	2,342	2,520	2,686	2,845
Imports	3,776	5,094	6,202	6,376	7,915	9,025	9,813	10,407	11,137	11,930
Services	1,052	1,796	2,401	3,358	3,817	4,242	4,638	5,016	5,348	5,714
Exports	2,226	3,486	4,801	6,572	7,544	8,303	9,006	9,689	10,375	11,068
Imports	1,174	1,690	2,400	3,214	3,727	4,061	4,368	4,673	5,028	5,354
Primary Income	-219	-211	-315	-278	-249	-192	-197	-232	-236	-220
Compensation of employees (net)	221	296	428	535	689	806	875	914	984	1,082
Investment income (net)	-443	-508	-762	-813	-939	-999	-1,073	-1,146	-1,221	-1,303
Other (net)	2	1	2	0	1	1	1	1	1	1
Secondary Income	997	1,078	1,119	1,197	1,653	1,766	1,893	2,020	2,154	2,297
General Government (net)	58	49	31	20	19	15	16	17	18	20
Workers' Remittances (net)	673	761	834	928	1,205	1,291	1,384	1,477	1,576	1,680
Other private transfers (net)	266	268	254	248	429	460	493	525	560	597
Capital account	143	357	19	45	-5	12	13	14	14	15
Financial account	-1,504	-1,555	-809	-992	-1,163	-1,613	-1,790	-1,624	-1,647	-1,879
Direct investment, net	-894	-980	-1,180	-1,246	-1,508	-1,624	-1,695	-1,788	-1,893	-1,987
Portfolio investment	-66	-96	573	325	777	552	941	1,020	1,071	580
Other investment	-545	-478	-202	-72	-432	-541	-1,036	-856	-825	-472
Errors and omissions	160	181	130	153	0.0	0.0	0.0	0.0	0.0	0.0
Net balance	495	745	-235	774	290	611	665	553	477	601
Reserve assets (reserve loss = +)	-655	-926	105	-927	-290	-611	-665	-553	-477	-601
Financing Gap	0	0	0	0	0	0	0	0	0	0
	(Percent change, unless otherwise noted)									
Memorandum items:										
Goods and Services										
Export value (fob)	-29.8	57.3	41.7	24.9	11.4	12.0	8.1	7.6	7.0	6.5
Import value (fob)	-19.8	37.0	26.8	11.5	21.4	12.4	8.4	6.3	7.2	6.9
Export volume	-27.4	41.4	28.3	23.8	6.3	10.1	6.2	5.5	4.9	4.4
Import volume	-19.5	23.7	11.7	10.6	16.6	9.4	5.8	3.7	4.5	4.2
Terms of trade	-9.1	17.5	8.7	-7.9	-5.1	-2.5	-0.3	-0.8	-0.6	-0.4
Gross reserves (millions of euros)	3,942	4,972	4,952	5,847	6,137	6,748	7,413	7,966	8,443	9,044
(in months of imports of goods and services)	9.6	8.8	6.9	7.3	6.3	6.2	6.3	6.3	6.3	6.3
(in percent of ARA metric) 1/	188	215	197	213	131	135	140	141	140	141
Gross external debt (millions of euros)	8,549	9,755	9,766	10,147	10,337	10,769	11,224	11,809	12,499	13,382
Gross external debt (percent of GDP)	63.9	64.0	53.9	46.2	41.0	39.8	38.7	38.2	37.9	38.0

Sources: Albanian authorities; and IMF staff estimates.

1/ The de facto exchange rate regime was reclassified to crawl-like in 2024 in line with the IMF's backward-looking statistical methodology.

Table 4a. Albania: Monetary Survey, 2020–29
(Billions of lek)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
					Proj.					
Net foreign assets	808.2	854.4	846.6	909.8	902.3	989.2	1,090.1	1,175.7	1,256.3	1,348.5
Bank of Albania	480.4	556.0	523.1	569.7	553.3	607.9	673.0	727.2	773.7	832.3
Commercial banks	327.8	298.4	323.4	340.1	349.0	381.4	417.1	448.5	482.6	516.2
Net domestic assets	648.7	727.9	818.5	788.5	917.3	929.5	955.6	1,006.4	1,071.2	1,132.9
Claims on central government, net	435.4	412.2	485.7	467.9	519.8	557.6	592.1	622.6	650.0	671.6
Claims on public enterprises	15.2	22.5	23.7	16.8	20.2	18.5	19.4	18.9	19.1	19.0
Claims on the private sector	579.9	629.5	673.8	707.5	782.9	825.4	879.9	938.4	1,000.8	1,066.8
In leks	300.8	330.1	349.2	400.8	477.6	511.8	550.7	592.4	636.9	684.2
In foreign currency	279.1	299.4	324.6	306.7	305.3	313.6	329.2	346.0	363.8	382.7
Other items, net	-381.7	-336.4	-364.6	-403.7	-405.7	-472.1	-535.8	-573.6	-598.7	-624.6
Broad money	1,456.9	1,582.3	1,665.1	1,698.2	1,819.6	1,918.7	2,045.7	2,182.1	2,327.5	2,481.4
Currency outside banks	344.6	366.3	387.7	393.6	421.7	444.7	474.1	505.7	539.4	575.1
Deposits	1,112.3	1,216.1	1,277.4	1,304.7	1,397.9	1,474.1	1,571.6	1,676.4	1,788.1	1,906.3
Domestic currency	517.7	552.2	551.6	579.1	620.4	654.2	697.5	744.0	793.6	846.1
Foreign currency	594.7	663.8	725.9	725.6	777.5	819.8	874.1	932.4	994.5	1,060.2
Memorandum items:										
Broad money growth (% change)	10.5	8.6	5.2	2.0	7.1	5.4	6.6	6.7	6.7	6.6
Reserve money growth (% change)	23.1	5.8	9.6	2.1	3.9	6.0	5.9	6.1	6.2	6.3
Private sector credit growth (% change)	8.9	8.6	7.0	5.0	10.7	5.4	6.6	6.7	6.6	6.6
Broad money (as percent of GDP)	88.0	-1.2	77.5	71.7	71.7	71.7	71.7	71.7	71.7	71.7
Private sector credit (as percent of GDP)	35.0	33.7	31.3	29.9	30.8	30.8	30.8	30.8	30.8	30.8
Velocity (nominal GDP/broad money)	1.1	1.2	1.3	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Money multiplier (absolute values)	2.7	2.8	2.7	2.7	2.8	2.8	2.8	2.8	2.8	2.8
Currency (as share of broad money)	23.6	23.1	23.3	23.2	23.2	23.2	23.2	23.2	23.2	23.2
Foreign currency deposits/total deposits	53.5	54.6	56.8	55.6	55.6	55.6	55.6	55.6	55.6	55.6
Gross reserves (millions of euros)	3,942.4	4,972.2	4,952.1	5,847.0	6,137.0	6,748.0	7,413.0	7,966.0	8,443.0	9,044.0

Sources: Bank of Albania; and IMF staff estimates.

Note: Foreign exchange denominated items are converted at exchange rates for that period.

Table 4b. Albania: Summary of Accounts of the Central Bank, 2020–29
(Billions of lek; end of period)

	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
							Proj.			
Net foreign assets	480.4	556.0	523.1	569.7	553.3	607.9	673.0	727.2	773.7	933.2
Assets	504.2	600.4	565.6	607.4	589.4	643.6	708.7	762.9	809.4	867.9
Liabilities	23.8	44.4	42.5	37.7	36.1	35.7	35.7	35.7	35.7	35.7
Net domestic assets	54.0	-8.3	79.4	47.9	104.1	89.1	65.3	56.1	58.3	51.9
Domestic credit	66.5	0.0	55.9	15.0	75.9	58.6	35.9	26.2	28.7	22.1
Net claims on central government	31.8	-43.8	2.5	-32.0	-20.7	-6.0	-4.2	-7.0	-8.8	-10.6
Other credit	34.7	43.8	53.4	47.0	96.6	64.5	40.2	33.2	37.5	32.7
Private sector	2.0	2.2	2.3	2.3	2.3	2.3	2.3	2.3	2.3	2.3
Commercial banks	32.7	41.6	51.1	44.8	94.3	62.2	37.9	31.0	35.2	30.4
Other items, net (assets = +)	-12.5	-8.3	23.5	32.9	28.2	30.5	29.3	29.9	29.6	29.8
Reserve money	534.3	565.2	619.2	632.4	657.4	697.0	738.3	783.4	832.0	884.1
Currency in circulation	344.6	366.3	387.7	393.6	421.7	444.7	474.1	505.7	539.4	575.1
Bank reserves	189.7	198.9	231.5	238.8	235.7	252.3	264.2	277.6	292.6	309.1
Other nonbank deposits	0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Bank of Albania; and IMF staff estimates.
Note: Foreign exchange denominated items are converted at exchange rates for that period.

Table 5. Albania: IMF Core Indicators of Financial Soundness, 2014–24

		Dec-14	Dec-15	Dec-16	Dec-17	Dec-18	Dec-19	Dec-20	Dec-21	Dec-22	Dec-23	Sep-24
I	Capital-based											
(i)	Regulatory capital as a percent of risk-weighted assets	16.8	15.8	16.0	17.0	18.7	18.7	18.7	18.5	18.1	19.4	20.2
(ii)	Regulatory Tier 1 capital as a percent of risk-weighted assets	13.8	13.7	14.1	15.5	17.4	17.5	17.6	17.4	16.9	17.7	18.6
(iii)	Capital as a percent of total assets											
	Regulatory Tier 1 capital as a percent of total assets	7.4	8.3	8.7	9.0	9.2	9.1	9.1	8.8	8.6	8.7	9.1
	Regulatory capital as a percent of total assets	9.0	9.7	10.0	9.9	9.8	9.7	9.6	9.4	9.2	9.5	9.9
	Shareholders' equity as a percent of total assets	8.6	9.5	9.7	10.2	10.1	10.5	10.4	9.9	9.8	9.9	10.1
(iv)	Nonperforming loans net of provisions as a percent of capital											
	As a percent of regulatory Tier 1 capital	46.7	28.4	26.3	17.3	16.6	14.6	12.0	7.6	7.9	6.0	5.9
	As a percent of regulatory capital	38.3	24.3	23.1	15.7	15.5	13.6	11.3	7.1	7.3	5.5	5.5
	As a percent of shareholders' equity	40.2	24.8	23.6	15.3	15.0	12.7	10.5	6.8	6.9	5.3	5.3
(v)	Return on equity (ROE) (annual basis)	14.2	13.2	7.5	15.7	13.0	13.5	10.7	12.9	12.3	17.3	18.3
(vi)	Net open position in foreign exchange as a percent of capital											
	As a percent of regulatory Tier 1 capital	10.4	9.0	8.0	7.3	8.4	8.0	9.0	9.8	5.4	6.7	5.1
	As a percent of regulatory capital	8.5	7.7	7.0	6.7	7.8	7.4	8.4	9.2	5.0	6.1	4.6
	As a percent of shareholders' equity	8.9	7.8	7.2	6.5	7.5	6.9	7.8	8.7	4.7	5.9	4.5
II	Asset-based											
(vii)	Liquid assets as a percent of total assets (Liquid-asset ratio)	31.9	32.3	31.3	30.2	34.2	35.7	34.8	33.3	29.6	30.8	28.8
(viii)	Liquid assets as a percent of short-term liabilities	40.4	41.4	40.6	40.8	46.2	49.4	47.4	45.4	41.1	43.4	41.9
(ix)	Return on assets (ROA) (net income to average total assets, annual)	0.9	1.2	0.7	1.5	1.3	1.4	1.1	1.3	1.2	1.7	1.9
(x)	Nonperforming loans (gross) as a percent of total loans	22.8	18.2	18.2	13.2	11.1	8.4	8.1	5.6	5.0	4.7	4.6
III	Income and expense-based											
(xii)	Interest margin to gross income	84.5	82.7	81.6	95.6	100.8	75.7	74.1	74.0	81.5	78.9	77.1
(xiii)	Noninterest expenses to gross income	51.1	48.1	50.4	71.9	77.6	61.2	58.7	60.3	60.4	52.9	50.6
IV	Memorandum items											
	Other (noncore) indicators:											
	Customer deposits as a percent of total (non-interbank) loans	180.2	187.8	192.8	194.0	203.2	207.2	211.3	213.6	212.4	217.1	203.2
	Foreign currency-denominated loans to total loans	62.4	60.8	58.6	56.4	56.1	51.2	50.3	51.1	51.4	46.3	45.5
	Foreign currency-denominated liabilities as a percent of total liabilities	58.7	60.7	54.6	60.4	59.1	56.8	55.7	51.0	52.4	55.5	55.4
	Other indicators:											
	Risk weighted assets as a percent of total assets	53.6	62.0	63.4	59.7	53.9	53.2	52.6	52.4	50.9	49.0	48.9
	Total loans as a percent of total assets	46.0	44.5	42.7	41.6	40.0	39.0	38.5	37.8	38.1	37.6	39.6
	Total loans as a percent of shareholders' equity	536.3	466.8	438.6	408.9	393.8	373.3	370.5	381.7	388.0	378.5	391.5

Sources: Bank of Albania; and IMF staff estimates.

Annex I. Implementation of Past IMF Recommendations

Key Recommendations (2023 Article IV)	Policy Actions
Fiscal Policy	
A stronger fiscal effort remains critical as Albania grapples with elevated financing needs and limited visibility on contingent liabilities. Staff recommends any revenue overperformance be saved and normative acts be avoided. The authorities should also continue to lengthen debt maturities.	The government's budget deficit narrowed in 2023 due to higher revenues and lower spending, despite increased wage and interest costs. The debt-to-GDP ratio fell, and the government targets further reductions in 2024 while maintaining a positive primary balance. Normative Acts (February and August 2024) continue to be used, with increased revenues matched with spending increases (mainly domestically financed capital expenditures), while maintaining the primary balance target. Stronger public debt management has increased the average maturity of public debt.
Concrete advances on fiscal reforms that enhance governance and oversight of SOEs, including in the energy sector, and PPPs, are key to safeguarding fiscal sustainability.	The PFM Strategy has been adopted and the authorities have started publishing an annual report on its implementation. The government updated its PIM guidelines in February 2024 to allow more flexibility for the Ministry of Finance in discharging its role as gatekeeper. The authorities are revising the PPP law, and a draft law is expected to be circulated for public consultation by end-2024. The authorities have completed a standalone budget risk statement capturing a whole range of fiscal risks, including those stemming from SOEs and are considering its publication.
Monetary Policy and Financial Sector	
There is scope to further increase policy rates to ensure inflation converges to target by early 2025, but high uncertainty calls for a flexible and data-driven approach to policy settings.	The BoA raised the policy rate by 25 bps in November 2023. Following a faster than anticipated decline in inflation in 2024, it decreased its policy rate by 0.25 percent to 2.75 percent in November 2024.
There is scope to strengthen the capital positions of some banks, in addition to prudent provisioning and focused asset quality reviews. Over the medium-term, a positive neutral countercyclical capital buffer rate could be considered to support financial stability.	The BoA has continued to closely monitor banks' capital position, especially in cases of non-compliance with macroprudential capital buffers. In one case where significant capital shortfalls continued to be observed in Q3 2024, the BoA indicated its plan to enforce suspension of dividends distribution. The BoA announced an increase of the CCyB rate from zero to 0.25 percent in June 2024, to be effective in June 2025, and is examining the merit of adopting a positive neutral CCyB framework.
Continuing to encourage sound governance to mitigate risks of capital shortfalls, related party transactions and large exposures, enhanced risk-based on-site and off-site inspections, and effective AML/CFT	The BoA continues on-site and off-site inspections of the banking sector. The authorities have continued to ensure fit and proper criteria are met continuously,

Key Recommendations (2023 Article IV)	Policy Actions
oversight, on fit and proper requirements and monitoring of cross-border transactions, remain priorities.	based on expert judgement and international practices.
Aligning supervisory and regulatory frameworks with EU standards.	The process of attaining EBA equivalence has been initiated following a kick-off meeting in 2023. Significant progress has been made since, with an independent review using EBA's methodology indicating that Albania's regulatory framework and supervisory practices are deemed highly equivalent to EU standards in key areas, including capital requirements, credit risk mitigation, large exposures, liquidity, leverage ratio, securitization, macroprudential supervision, professional secrecy, and international cooperation. The BoA is currently seeking clarity on remaining issues (such as credit valuation adjustment and internal models) that are potentially not aligned with EU standards.
A rising concentration of lending linked to the real estate sector. Data gaps prevent timely monitoring and identification of potential risks related to the real estate sector.	The introduction of the new regulation for collection of real estate lending related data, has entered into force in 2024. Reporting of individual banks has started.
The BoA should prepare and adopt a comprehensive cyber-testing strategy and clearly define and test business continuity management exercises.	The BoA has carried internal capacity development exercises for staff. There is ongoing work to improve the regulatory framework on cyber risk and increased interaction with the banking sector and other relevant regulatory authorities
The development of domestic capital markets should give priority to attracting more non-resident investors, strengthening investing capacities of non-bank financial institutions, and increasing liquidity in government securities' secondary markets.	AFSA developed a road map for the implementation of the strategy for the development of capital markets – a document approved by the Council of Ministers in mid-2023.
Structural	
Accelerating emigration underscores the urgency of decisive implementation of policies to develop and retain human capital.	In May 2024 the National Strategy for Migration 2024–30 and the associated Action Plan has been approved. Among the measured considered, there is the opportunity for returning Albania citizens to benefit from the Youth Guarantee program and support is provided with dedicated active labor market initiatives.
Increasing female labor force participation can help reduce labor shortages and boost growth. Expanding access to childcare facilities could boost participation and ease labor shortages especially for women without tertiary education.	The Ministry of Economy has started a program to enhance women's inclusion in the labor market through information campaigns and support to access dedicated funds, training, and female entrepreneurship programs.

Key Recommendations (2023 Article IV)	Policy Actions
Governance Reforms	
Judicial reforms should be complemented by increased efficiency to address the backlog in cases.	The vetting of judges, as part of the judicial reform, is close to completion with 99 percent of cases vetted yielding 283 dismissals and 344 confirmations. Some preparatory measures have been completed for the establishment of an integrated case management system, but overall progress is limited. The draft 2024–2030 Anticorruption Strategy was published for public consultation in November 2024 and its implementation is outlined in the strategy's 2024–26 Action Plan.
Continue strengthening Albania's AML/CFT regime, commit to FATF principles and best practices for any future voluntary disclosure programs.	The 2024–30 National Strategy for the Prevention of Money Laundering and Financing of Terrorism (AML/CFT) was adopted in July 2024 along with a three-year Action Plan, which also aims to mitigate the risks identified in the 2023 National Risk Assessment. The strategy, among others, envisages legislative changes relating to beneficial owners, including in the banking sector. As of November 2024, significant progress has been made on measures due for completion in 2024. The authorities do not have any plans to introduce a voluntary disclosure program in the foreseeable future.

Annex II. External Sector Assessment

Overall Assessment: *Albania's external position in 2024 was moderately stronger than the level implied by medium-term fundamentals and desirable policy settings.* The projected current account balance in 2024 is -3.4 percent of GDP, compared to -1.2 percent of GDP in 2023, and an average of around -6 percent of GDP in 2018–2022, on the back of strong tourism growth. The notable change in the current account balance within such a short period calls for caution in interpreting the model results. The 2024 assessment is based on projections and preliminary data.

Potential Policy Responses: Albania is an emerging market economy with a small production base, an underdeveloped capital market, considerable infrastructure gaps, and significant structural challenges. The authorities should seek to boost investment through improving the business climate, addressing governance shortcomings, strengthening the public investment framework, confronting demographic challenges, and diversifying the exports base.

Foreign Assets and Liabilities: Position and Trajectory

Background. As of end-2024, Albania's Net International Investment Position (NIIP) showed continued improvement, reaching around -38 percent of GDP, compared to -42 percent in 2023 and -47 percent in 2022. This improvement was driven primarily by a reduction in liabilities, which decreased from 96 percent of GDP in 2023 to 90 percent of GDP in 2024, along with the slight increase in assets to around 52 percent of GDP. Reserve assets have held steady at approximately 26 percent of GDP in the last three years.

Assessment. The gradual improvement in Albania's NIIP reflects the country's efforts to strengthen its overall external balance. A decline in liabilities, particularly in foreign debt, contributed to the improvement. The large share of liabilities linked to foreign direct investment (FDI), which accounted for around 65 percent of GDP, helps mitigate some risks by providing a stable and long-term source of financing. However, the reliance on FDI also leaves Albania exposed to potential shifts in investor sentiment. Continued efforts to reduce public debt, diversify foreign capital sources, and develop the domestic capital market will be crucial to ensuring long-term external sustainability and resilience to global financial shocks.

2024 (% of GDP)	NIIP: -38.1	Gross Assets: 52	Debt Assets: 17	Gross Liab.: 90	Debt Liab.: 30

Current Account

Background. The current account deficit is expected to increase in 2024 to 3.4 percent reflecting slower growth in tourism arrivals, lower goods exports, and higher imports, including from the construction sector. While widening from 2023 (-1.2 percent), the 2024 projected deficit is well below the average current account deficit in 2018–2022 of around 6 percent. The primary driver of this reduction was a strong increase in the services balance, fueled by robust tourism inflows, sustained direct investment, and remittance inflows. A step up in public investment in 2025 and 2026 is expected to widen the current account deficit further. After a temporary improvement in 2027, the current account balance is expected to gradually decline *towards* the norm as imports continue to increase, partly due to input demand from the tourism sector. A gradual increase in private investment over the medium term is also expected to increase the savings-investment gap.

Assessment. In 2024, Albania's external position is considered to be moderately stronger than the level implied by fundamentals and desirable policies. The CA model estimates the cyclically adjusted current account norm to be -4.8 percent of GDP, while the actual cyclically adjusted current account balance is projected to widen to -3.4 percent of GDP, resulting in a current account gap of 1.3 percent of GDP. Albania's reliance on hydropower, along with its dependence on tourism and remittances, means that it remains vulnerable to external disturbances, particularly in response to weather-related disruptions and shifts in global economic conditions.

Albania: EBA-Lite Model Results, 2024

	CA model 1/	REER model
	(in percent of GDP)	
CA-Actual	**-3.4**	
Cyclical contributions (from model) (-)	-0.1	
Natural disasters and conflicts (-)	0.1	
Adjusted CA	**-3.4**	
CA Norm (from model) 2/	**-4.8**	
Adjustments to the norm (+)	0.0	
Adjusted CA Norm	**-4.8**	
CA Gap	**1.3**	**-6.1**
o/w Relative policy gap	2.0	
Elasticity	-0.3	
REER Gap (in percent)	**-5.2**	**23.2**

1/ Based on the EBA-lite 3.0 methodology

2/ Cyclically adjusted, including multilateral consistency adjustments.

Real Exchange Rate

Background. Albania's Real Effective Exchange Rate (REER) remained broadly stable in the first 10 months of 2024 after recording an 11 percent appreciation in 2023, bringing the cumulative appreciation over the past decade to around 35 percent. This appreciation was driven by strong inflows from tourism and sustained FDI inflows.

Assessment. The results by the two models differ, suggesting some uncertainty and the need for caution in interpreting the results. The CA model suggests an REER gap of -5.2 percent (using an estimated elasticity of 0.3), consistent with the estimated positive current account gap. However, the REER model points to a positive gap of 23 percent. While Albania remains competitive as a tourism destination, pressures on broader competitiveness will increase if wage growth continues to outpace productivity growth, even as labor shortages resulting from an aging population and negative net migration continue to exert upward pressures on labor costs.

Capital and Financial Accounts: Flows and Policy Measures

Background. In 2024, net financial inflows were primarily driven by FDI inflows, which accounted for around 7 percent of GDP, while net portfolio inflows stood at 3 percent of GDP. FDI is mainly concentrated in the tourism and construction sectors. Portfolio flows have tended to be more volatile, driven by the government's Eurobond issuances and repayments. While still limited, at under 2 percent of total outstanding public debt, foreign participation in the domestic government bond market increased recently.

Assessment. Albania's capital and financial account dynamics continue to be supported by stable FDI inflows and remittance flows, the latter benefitting from the net emigration of working age Albanians abroad. FDI in recent years has mainly been channeled towards construction, including tourism-related, and could increase at a slower pace as tourism growth stabilizes at a lower rate.

FX Intervention and Reserves Level

Background. Total intervention in 2024 was around 3 percent of GDP. The BoA conducts regular scheduled FX auctions to build up reserves according to targets set under the BoA's reserve adequacy framework. The framework considers several factors, including public and private foreign short-term debt, FX deposits, the probability of sudden stops, and the opportunity cost of holding reserves. The de jure exchange rate system is classified as free floating. The de facto exchange rate arrangement was reclassified as crawl-like, effective January 5, 2024, given (i) the BoA's sizable unscheduled interventions through 2024 relative to the interbank market volume, (ii) the behavior of the exchange rate, which followed an appreciating trend within a 2 percent band against the euro between January and October 2024, with one realignment in April 2024 (see Informational Annex). Under the reclassification of the de facto exchange rate regime, gross reserves would stand at 131 percent of the fixed exchange rate regime ARA metric at end-2024, above the mid-point of the adequacy range.

Assessment. The BoA should let the exchange rate adjust more flexibly, with intervention serving only as a complementary tool in addressing non-fundamental fluctuations. FX reserves are assessed to be adequate. Though Albania's open capital account and reliance on tourism and remittances, alongside an increase in volatile portfolio flows, may justify building additional buffers, further reserve accumulation should be guided by a careful cost-benefit analysis (see Section B of the report).

Annex III. Sovereign Risk and Debt Sustainability Framework

Figure 1. Albania: Risk of Sovereign Stress

Horizon	Mechanical signal	Final assessment	Comments
Overall	...	Moderate	While public debt is on a broadly healthy debt trajectory in the short and medium term, gross financing needs remain considerable, averaging 15 percent over the medium term. There is room to further strengthen debt management to lengthen maturities and reduce potential vulnerabilities from large amortizations. More steps can also be taken to strengthen fiscal risk monitoring, management, and mitigation.
Near term 1/			
Medium term	Moderate	Moderate	Fiscal rules are expected to anchor fiscal policy and government borrowing in the medium term and some progress has been made to increase the average maturity of public debt and improve debt management. Nevertheless, gross financing needs remain considerable. Long-standing challenges stemming from limited visibility over the government's contingent liabilities, especially those related to state-owned enterprises and public-private partnership projects continue to weigh on the medium-term debt outlook.
Fanchart	Moderate	...	
GFN	Moderate	...	
Stress test	Comm. Prices Nat. Disast.	...	
	...	Moderate	As Albania's growth rate converges to potential and the financing environment remains favorable, public debt is expected to continue on a gradual decline in the long term. However, Albania continues to face the downward drift from high net emigration, an anemic birth rate, and an aging population. Beyond demogrraphics, which imply higher spending on pension and healthcare spending, Albania is also vulnerable to high spending pressures from climate action. The government's pension-related obligations are expected to continue to weigh on the long-term growth and fiscal outlook, absent major changes.
Sustainability assessment 2/	Not required for surveillance countries	Not required for surveillance countries	
Debt stabilization in the baseline			Yes

DSA Summary Assessment

Albania's medium-term outlook remains favorable as growth is expected to be supported by the tourism-related services exports. Fiscal outturns in recent years have outperformed expectations as the authorities have maintained a broadly prudent fiscal stance. The reactivation of fiscal rules requiring a nonnegative primary balance from 2024 onwards and the continued reduction in public debt can be expected to support fiscal sustainability. Progress towards attaining the objectives of the medium-term debt management strategy will also improve debt composition, lengthening maturities and briging down financing costs. However, gross financing needs remain considerable, averaging 15 percent in 2024-29 and long-term spending pressures present main sources of risk to the sovereign debt outlook. The lack of concrete progress in containing and managing contingent liabilities, and in addressing the spending pressure points over the long term can be expected to weigh on medium- long-term debt outlook.

Source: Fund staff.

Note: The risk of sovereign stress is a broader concept than debt sustainability. Unsustainable debt can only be resolved through exceptional measures (such as debt restructuring). In contrast, a sovereign can face stress without its debt necessarily being unsustainable, and there can be various measures—that do not involve a debt restructuring—to remedy such a situation, such as fiscal adjustment and new financing.

1/ The near-term assessment is not applicable in cases where there is a disbursing IMF arrangement. In surveillance-only cases or in cases with precautionary IMF arrangements, the near-term assessment is performed but not published.

2/ A debt sustainability assessment is optional for surveillance-only cases and mandatory in cases where there is a Fund arrangement. The mechanical signal of the debt sustainability assessment is deleted before publication. In surveillance-only cases or cases with IMF arrangements with normal access, the qualifier indicating probability of sustainable debt ("with high probability" or "but not with high probability") is deleted before publication.

Figure 2. Albania: Debt Coverage and Disclosure

						Comments
1. Debt coverage in the DSA: 1/	CG	GG	NFPS	CPS	Other	
1a. If central government, are non-central government entities insignificant?					n.a.	

2. Subsectors included in the chosen coverage in (1) above:

						Subsectors captured in the baseline	Inclusion	Comments
CPS	NFPS	GG: expected	CG	1		Budgetary central government	Yes	
				2		Extra budgetary funds (EBFs)	No	Not applicable
				3		Social security funds (SSFs)	No	
				4		State governments	No	
				5		Local governments	Yes	
				6		Public nonfinancial corporations	No	
				7		Central bank	No	
				8		Other public financial corporations	No	

3. Instrument coverage:	Currency & deposits	Loans	Debt securities	Oth acct. payable 2/	IPSGSs 3/
4. Accounting principles:	Basis of recording		Valuation of debt stock		
	Non-cash basis 4/	Cash basis	Nominal value 5/	Face value 6/	Market value 7/
5. Debt consolidation across sectors:		Consolidated		Non-consolidated	

Color code: chosen coverage; Missing from recommended coverage; Not applicable

Reporting on Intra-Government Debt Holdings

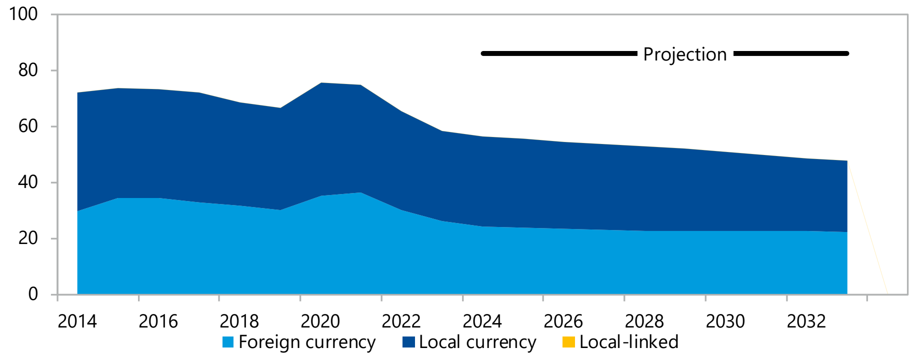
				Issuer \ Holder	Budget. central govt	Extra-budget. funds (EBFs)	Social security funds (SSFs)	State govt.	Local govt.	Nonfin. pub. corp.	Central bank	Oth. pub. fin corp	Total
CPS	NFPS	GG: expected	CG	1 Budget. central govt									0
				2 Extra-budget. funds									0
				3 Social security funds									0
				4 State govt.									0
				5 Local govt.									0
				6 Nonfin pub. corp.									0
				7 Central bank									0
				8 Oth. pub. fin. corp									0
				Total	0	0	0	0	0	0	0	0	0

1/ CG=Central government; GG=General government; NFPS=Nonfinancial public sector; PS=Public sector.
2/ Stock of arrears could be used as a proxy in the absence of accrual data on other accounts payable.
3/ Insurance, Pension, and Standardized Guarantee Schemes, typically including government employee pension liabilities.
4/ Includes accrual recording, commitment basis, due for payment, etc.
5/ Nominal value at any moment in time is the amount the debtor owes to the creditor. It reflects the value of the instrument at creation and subsequent economic flows (such as transactions, exchange rate, and other valuation changes other than market price changes, and other volume changes).
6/ The face value of a debt instrument is the undiscounted amount of principal to be paid at (or before) maturity.
7/ Market value of debt instruments is the value as if they were acquired in market transactions on the balance sheet reporting date (reference date). Only traded debt securities have observed market values.

While the debt of state-owned enterprises is not included in the public debt statistics, the debt guarantees provided by the government to SOEs are included. Potential contingent liabilities arising from public-private partnership projects are not included.

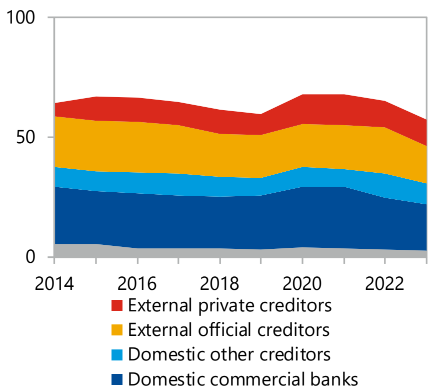
Figure 3. Albania: Public Debt Structure Indicators

Debt by Currency (Percent of GDP)



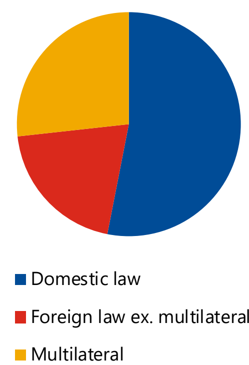
Note: The perimeter shown is general government.

Public Debt by Holder (Percent of GDP)



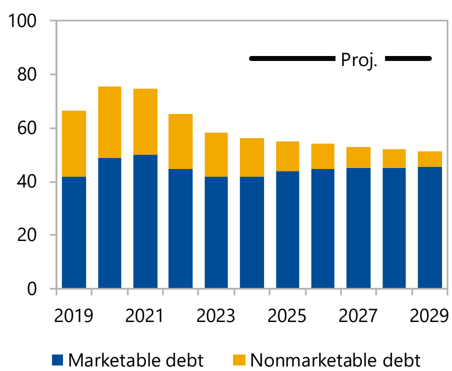
Note: The perimeter shown is general government.

Public Debt by Governing Law, 2023 (Percent)



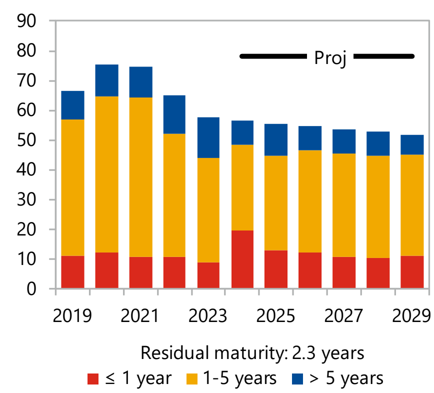
Note: The perimeter shown is general government.

Debt by Instruments (Percent of GDP)



Note: The perimeter shown is general government.

Public Debt by Maturity (Percent of GDP)



Note: The perimeter shown is general government.

Nonmarketable loans mainly consist of borrowing from multilateral and official bilateral lenders, as well as private syndicated loans. The share of euro-denominated debt in total external public debt has been steadily rising over the years and as of November 2024, accounted for around 80 percent of total outstanding external debt. Staff's baseline projections are based on (i) the latest debt breakdown data; and (ii) the assumption that new borrowing not yet identified in the government's Medium-Term Budget Framework will take the form of a eurobond issue with a maturity of 5 years. Albania does not have any local currency-linked public debt.

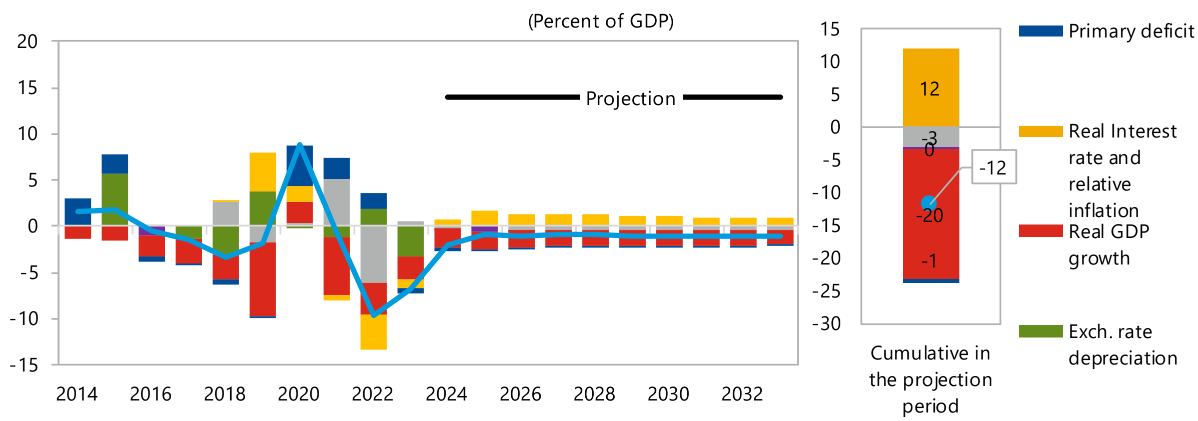
Table 1. Albania: Baseline Scenario

(Percent of GDP, unless indicated otherwise)

	Actual	Medium-term projection						Extended projection			
	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033
Public debt	58.4	56.4	55.5	54.5	53.7	52.8	51.8	50.8	49.7	48.6	47.6
Change in public debt	-6.8	-1.9	-0.9	-1.0	-0.8	-0.9	-1.0	-1.1	-1.1	-1.1	-1.0
Contribution of identified flows	-7.3	-1.7	-0.8	-0.7	-0.5	-0.6	-0.7	-0.7	-0.8	-0.8	-0.7
Primary deficit	-0.7	-0.5	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Noninterest revenues	27.2	28.1	27.9	27.9	28.0	28.1	28.1	28.1	28.1	28.1	28.1
Noninterest expenditures	26.5	27.7	27.8	27.9	28.0	28.1	28.1	28.1	28.1	28.1	28.1
Automatic debt dynamics	-6.6	-1.2	-0.2	-0.6	-0.6	-0.6	-0.7	-0.8	-0.8	-0.8	-0.8
Real interest rate and relative inflation	-0.9	0.8	1.7	1.3	1.3	1.2	1.1	1.0	1.0	0.9	0.9
Real interest rate	-1.5	0.6	1.6	1.1	1.0	1.0	0.9	0.8	0.8	0.7	0.7
Relative inflation	0.6	0.2	0.0	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Real growth rate	-2.5	-2.0	-1.9	-1.9	-1.9	-1.8	-1.8	-1.8	-1.7	-1.7	-1.7
Real exchange rate	-3.2	…	…	…	…	…	…	…	…	…	…
Other identified flows	0.0	0.0	-0.5	-0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Contingent liabilities	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
(minus) Interest Revenues	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other transactions	0.0	0.0	-0.5	-0.1	0.1	0.1	0.1	0.0	0.0	0.0	0.0
Contribution of residual	0.5	-0.2	-0.1	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3	-0.3
Gross financing needs	18.6	16.6	21.1	14.9	14.4	12.6	12.3	12.9	13.4	12.3	11.3
of which: debt service	19.3	17.0	21.2	14.9	14.4	12.6	12.3	12.9	13.5	12.3	11.3
Local currency	16.1	14.1	16.9	13.1	10.6	9.3	9.6	8.5	9.1	8.1	7.3
Foreign currency	3.2	2.9	4.3	1.9	3.7	3.3	2.7	4.4	4.3	4.2	4.0
Memo:											
Real GDP growth (percent)	3.9	3.6	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Inflation (GDP deflator; percent)	6.1	3.4	1.9	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Nominal GDP growth (percent)	10.2	7.1	5.4	6.6	6.7	6.7	6.6	6.6	6.6	6.6	6.6
Effective interest rate (percent)	3.5	4.5	5.0	5.0	5.0	4.9	4.7	4.6	4.5	4.5	4.5

Contribution to Change in Public Debt

(Percent of GDP)

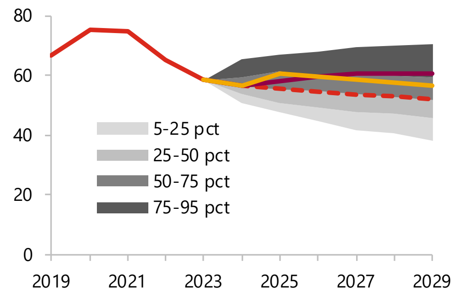


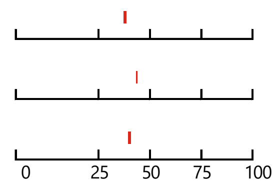
Fiscal rules requiring nonnegative primary balance become legally binding again from 2024 onwards after being suspended during the COVID-19 pandemic. The amount of withdrawal from the government's cash deposits in the Treasury Single Account from 2030 onwards is assumed to be the same as the amount planned in the government's Medium-Term Budget Framework for 2029. The total debt level estimate for 2024 includes arrears.

Figure 4. Albania: Medium-Term Risk Assessment

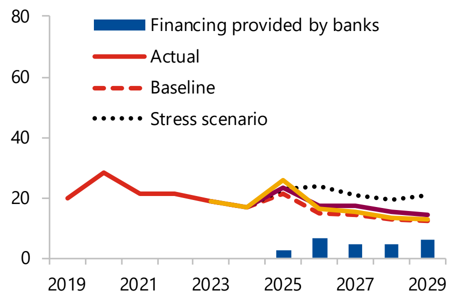
	Value	Contrib 1/	Percentile in peer group 2/
Debt fanchart module			
Fanchart width *(percent of GDP)*	32.7	0.5	
Probability of debt non-stabilization *(percent)*	21.6	0.2	
Terminal debt-to-GDP x institutions index	29.3	0.6	
Debt fanchart index (DFI)		1.3	
Risk signal: 3/		Moderate	
Gross financing needs (GFN) module			
Average baseline GFN *(percent of GDP)*	15.3	5.2	
Initial Banks' claims on the gen. govt *(pct bank assets)*	26.2	8.5	
Chg. In banks' claims in stress *(pct banks' assets)*	6.5	2.2	
GFN financeability index (GFI)		15.9	
Risk signal: 4/		Moderate	

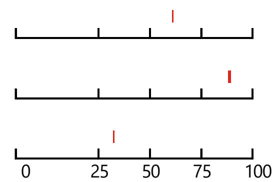
Final Fanchart (Percent of GDP)





Gross Financing Needs (Percent of GDP)

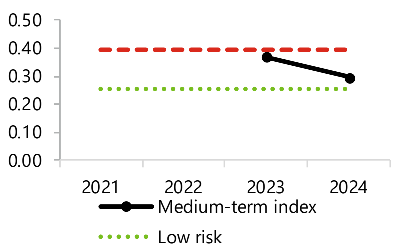




Triggered stress tests (stress tests not activated in gray)

Banking crisis | Commodity prices | Exchange rate | Contingent liab. | Natural disaster

Medium-Term Index (Index Number)



Medium-term risk analysis

	Value	Value (normalized)	Weight	Contribution
Debt fanchart index	1.3	0.3	0.5	0.1
GFN finaceability index	15.9	0.3	0.5	0.2
Medium-term index		0.3		
Risk signal: 5/		Moderate		
Final assessment:		Moderate		

Prob. of missed crisis, 2024-2029, if stress not predicted: 18.2 pct.

Prob. of false alarms, 2024-2029, if stress predicted: 30.7 pct.

High rollover needs and large amortization are the main factors underlying medium-term risks to debt sustainability. Gross financing needs have declined since the last Article IV consultation but remain considerable in the medium term, averaging 15 percent in 2024-29. Risks emanating from contingent liabilities also represent potential downsides. There has been an increased interest among foreign investors in domestic bonds although their total holdings are small, under 2 percent of total outstanding domestic debt as of November 2024. Banks' holding of the domestic government bonds remain high although the banking sector is broadly well capitalized and resilient despite pockets of vulnerabilities.

Source: IMF staff estimates and projections.

1/ See Annex IV of IMF, 2022, Staff Guidance Note on the Sovereign Risk and Debt Sustainability Framework for details on index calculation.

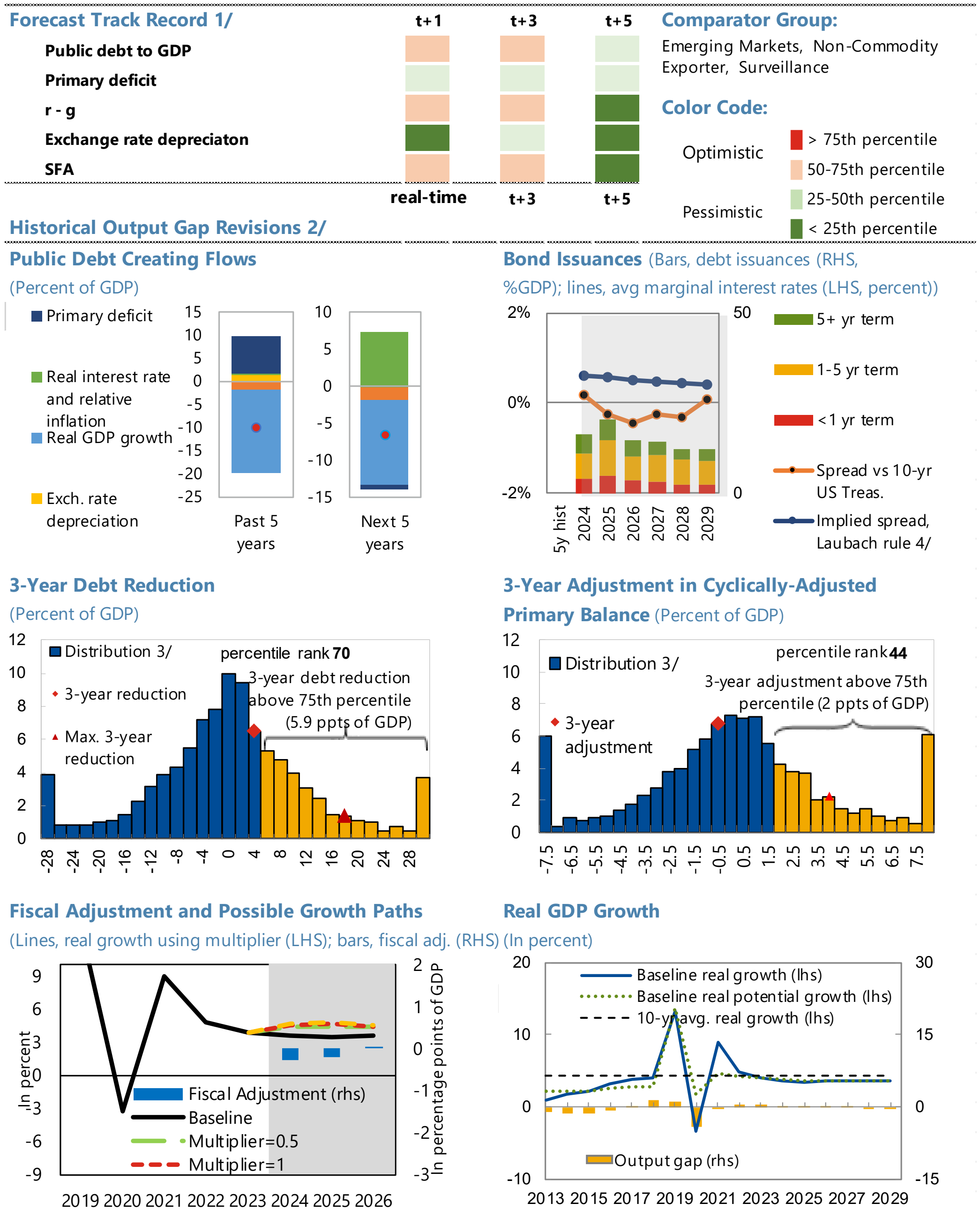
2/ The comparison group is emerging markets, non-commodity exporter, surveillance.

3/ The signal is low risk if the DFI is below 1.13; high risk if the DFI is above 2.08; and otherwise, it is moderate risk.

4/ The signal is low risk if the GFI is below 7.6; high risk if the DFI is above 17.9; and otherwise, it is moderate risk.

5/ The signal is low risk if the GFI is below 0.26; high risk if the DFI is above 0.40; and otherwise, it is moderate risk.

Figure 5. Albania: Realism of Baseline Assumptions



In recent years, the country's fiscal performance, external position, and growth have tended to outperform staff's baseline projections, with tourism arrivals consistently turning out to be higher than projected. Fiscal performance has partly been driven by a positive growth momentum but also consistent underexecution of capital spending. Over the medium and long term however, the growth outlook is likely tempered by sustained net emigration and an aging population.

Source : IMF staff.

1/ Projections made in the October and April WEO vintage.

2/ Calculated as the percentile rank of the country's output gap revisions (defined as the difference between real time/period ahead estimates.

3/ The Laubach (2009) rule is a linear rule assuming bond spreads increase by about 4 bps in response to a 1 ppt increase in the projected debt-to-GDP ratio.

4/ Data cover annual observations from 1990 to 2019 for MAC advanced and emerging economies. Percent of sample on vertical axis.

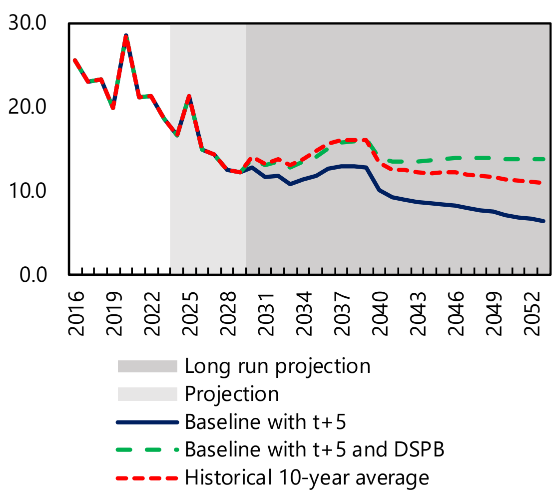
Figure 6. Albania: Triggered Modules

Large amortizations	**Pensions**	Climate change: Adaptation	Natural Resources
	Health	Climate change: Mitigation	

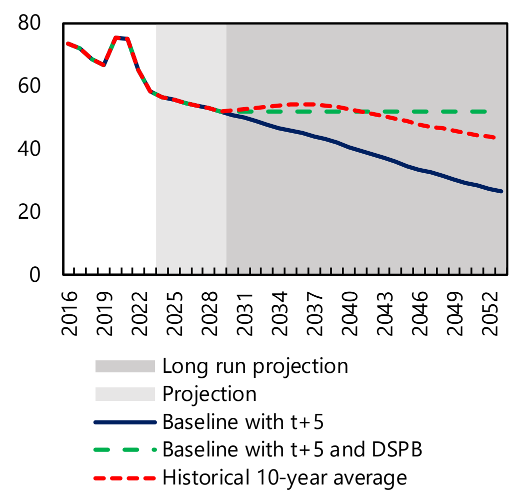
Albania: Long-Term Risk Assessment: Large Amortization

Projection	Variable	Risk Indication
Medium-term extrapolation	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Medium-term extrapolation with debt stabilizing primary balance	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Historical average assumptions	GFN-to-GDP ratio Amortization-to-GDP ratio Amortization	
Overall Risk Indication		

GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio

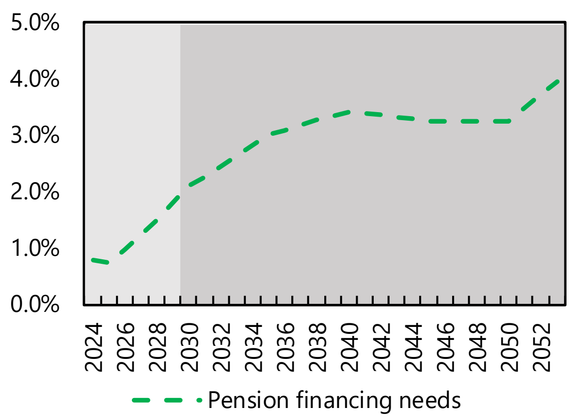


Loan amortization accounts for a large portion of Albania's gross financing needs. Repayment of relatively large Eurobond issues contributes towards some lumpiness in amortization trends, for instance, a large Eurobond repayment is due in 2025, pushing up amortization. A prudent fiscal policy coupled with improvement in public debt management, particularly through the lengthening of average maturities and containing the share of foreign financing, has helped make large amortizations relatively more manageable under the baseline, compared to the trajectory implied by historical trends.

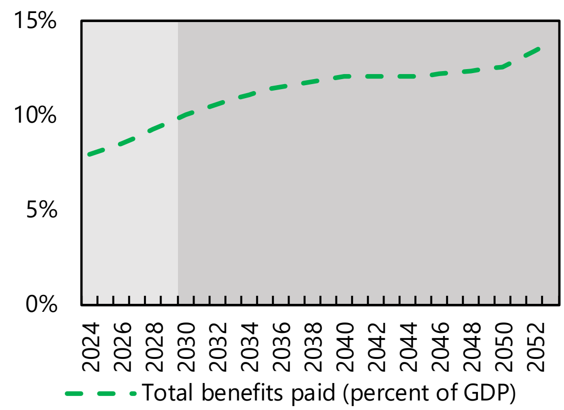
Figure 7. Albania: Demographics: Pensions

Permanent adjustment needed in the pension system to keep pension assets positive for:	**30 years**	**50 years**	**Until 2100**
(percent of GDP per year)	2.8%	4.8%	5.5%

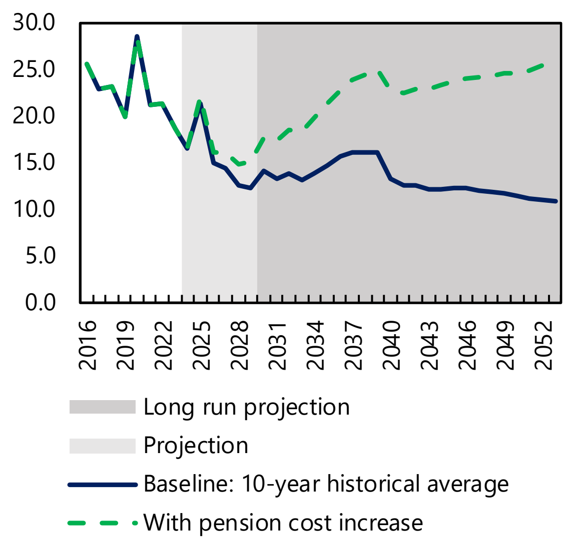
Pension Financing Needs



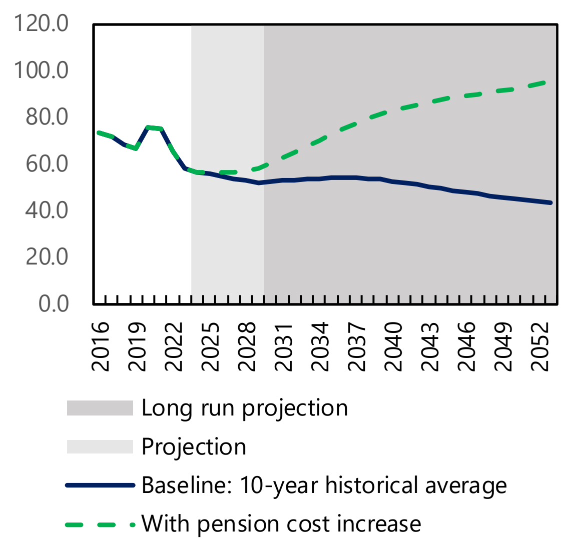
Total Benefits Paid



GFN-to-GDP Ratio



Total Public Debt-to-GDP Ratio



With pension obligations outpacing contributions, the pension system in Albania is already facing a deficit, and spending pressures are expected to rise in line with projected demographic trends. Albania's old age dependency ratio (26 percent) is expected to more than triple by 2070 (83 percent), a level much higher than in comparable countries (50-60 percent). The increase in the pension costs is mainly driven by the share of the elderly population, with demographics assumptions sourced from the United Nations' long-term population projections. Contributions are assumed to grow in tandem with GDP per worker. Simulations are based on a parsimonious set of assumptions that abstract from any reform measures (including wage reforms) as well as the impact of emigration on the potential number of beneficiaries in the long term (e.g. the interaction between intensification of emigration and the number of long-term beneficiaries).

Annex IV. Risk Assessment Matrix

Risks	Likelihood	Impact	Policy Responses
Conjunctural Risks			
Intensification of regional conflicts. Escalation or spread of the conflict in Gaza and Israel, Russia's war in Ukraine, and/or other regional conflicts or terrorism disrupt trade (e.g., energy, food, tourism, supply chains), remittances, FDI and financial flows, payment systems, and increase refugee flows.	High	Medium. Sharp escalation in geopolitical tensions would affect the Albanian economy through higher commodity prices, lower trading partner growth, tighter financial conditions, and weaker confidence.	• Depending on the relative impact on growth and inflation, adjust monetary and fiscal policies appropriately. • Provide targeted income support measures to the most vulnerable. • Exchange rate flexibility would help facilitate adjustments in the current account, while foreign exchange intervention could be deployed to reduce excess volatility.
Commodity price volatility. Supply and demand fluctuations (e.g., due to conflicts, export restrictions, OPEC+ decisions, and green transition) cause recurrent commodity price volatility, external and fiscal pressures, and food insecurity in EMDEs, cross-border spillovers, and social and economic instability.	High	High. Further increase in food and energy prices could de-anchor inflation expectations, worsen the current account, increase the budget deficit and fiscal risks from the energy sector, and hit the most vulnerable households.	• Tighten monetary policy to anchor inflation expectations and clearly communicate the BoA's strategy. • In light of inflationary and fiscal pressures, fiscal policy should not be loosened, but temporary and targeted income support measures to the most vulnerable should be provided. • Exchange rate flexibility would help facilitate adjustments in the current account.
Global growth slowdown. Growth slowdown in major economies, including due to supply disruptions, tight monetary policy, rising corporate bankruptcies, or a deeper-than-envisaged real estate sector contraction, with adverse spillovers through trade and	Medium	High. A recession in Europe might spill over to Albania through lower external demand, including for tourism, and a decline in remittances.	• Provide fiscal impulse to the economy by sustaining domestic demand within credible medium-term targets. • Improve the business environment to support growth and investment.

Risks	Likelihood	Impact	Policy Responses
financial channels, triggering sudden stops in some EMDEs.			
		Structural Risks	
Deepening geoeconomic fragmentation. Broader conflicts, inward-oriented policies, and weakened international cooperation result in a less efficient configuration of trade and FDI, supply disruptions, protectionism, policy uncertainty, technological and payments systems fragmentation, rising shipping and input costs, financial instability, a fracturing of international monetary system, and lower growth.	High	Medium. Disruptions of important supply chains would affect food and energy prices, hindering economic growth, worsening the current account, and de-anchoring inflation expectations.	• Prioritize structural reforms and investments that support potential output and productivity. • Calibrate monetary and fiscal policies to address imported inflation.
Climate change. Extreme climate events driven by rising temperatures cause loss of life, damage to infrastructure, food insecurity, supply disruptions, lower growth, and financial instability. A disorderly transition to net-zero emissions and regulatory uncertainty lead to stranded assets and low investment.	Medium	High. The increased intensity and frequency of weather-related shocks (e.g., droughts) would affect the capacity of Albania to produce electricity through hydropower pants. In addition, flooding would disrupt economic activities (e.g. agricultural production) and impact population wellbeing.	• Assess vulnerability to natural disasters and adopt adaptation measures. Consider putting in place a comprehensive disaster resilience strategy. • Improve efficiency of hydropower plants to adapt to weather shocks.
Cyberthreats. Cyberattacks on physical or digital infrastructure (including digital currency and crypto assets), technical	High	Medium. Cyberattacks to the banking sector would disrupt financial activities and reduce confidence in the banking sector.	• Continue with the implementation of measures discussed in the 2022 IMF technical assistance activity, to reduce the risk of cyber-attacks to the banking

Risks	Likelihood	Impact	Policy Responses
failures, or misuse of AI technologies trigger financial and economic instability.			system and to government institutions.
		Domestic Risks	
Exchange rate reversal. The steady appreciation of the exchange rate since 2022 may be followed by a sudden reversal.	Medium	High. A sudden depreciation would negatively affect the financial sector, firms, and households, through an increase in NPLs and portfolio switch, given the large share of FX loans and deposits.	• Tighten monetary policy to mitigate inflationary pressures and stem outflows. If triggered by a risk-off shock, FXI may be beneficial to ease some of the policy tradeoffs (and avoid a sharp tightening of monetary policy that would further weaken growth). • Tightening macroprudential tools could reduce risks from such shocks ex-ante.
Real estate market downturn. A sharp and sudden decline in prices of residential and commercial properties.	Medium	High. The quality of banks' credit portfolio deteriorates with a significant increase in NPLs, leading to tighter credit conditions and a slowdown in credit growth. The negative wealth effect would weaken confidence and weight on economic activity. This could trigger exchange rate depreciation, which would amplify the initial shock given the large share of unhedged FX loans in the real estate sector.	• Continue to closely monitor and supervise banks' credit portfolios. • Introduce borrower-based macroprudential measures, including loan-to-value and debt-to-income requirements, which should differentiate between domestic and FX loans to address FX risks. • Calibrate monetary and fiscal policies as appropriate.
Social unrest. Against the backdrop of parliamentary elections in Spring 2025, unmet social demands, or lack of progress on tackling governance and rule of law issues amplify risks of social unrest. Political polarization and instability weaken policymaking and confidence.	Low	High. Social conflict could affect investment and provoke capital outflows. A decline in political support for key institutions and policy frameworks could hinder reforms.	• Ensure that reforms are grounded in careful policy analysis and consultative processes, while enhancing communication with the public. • Advance reforms to better target social spending and support the vulnerable. • Advance governance reforms.

Annex V. Data Issues

Table 1. Albania: Data Adequacy Assessment for Surveillance

Data Adequacy Assessment Rating 1/							
B							
Questionnaire Results 2/							
Assessment	National Accounts	Prices	Government Finance Statistics	External Sector Statistics	Monetary and Financial Statistics	Inter-sectoral Consistency	Median Rating
	C	B	A	B	A	A	B
Detailed Questionnaire Results							
Data Quality Characteristics							
Coverage	C	B	C	A	A		
Granularity 3/	C		A	A	A		
			A		A		
Consistency			A	B		A	
Frequency and Timeliness	C	A	A	B	A		

Note: When the questionnaire does not include a question on a specific dimension of data quality for a sector, the corresponding cell is blank.
1/ The overall data adequacy assessment is based on staff's assessment of the adequacy of the country's data for conducting analysis and formulating policy advice, and takes into consideration country-specific characteristics.
2/ The overall questionnaire assessment and the assessments for individual sectors reported in the heatmap are based on a standardized questionnaire and scoring system (see IMF *Review of the Framework for Data Adequacy Assessment for Surveillance*, January 2024, Appendix I).
3/ The top cell for "Granularity" of Government Finance Statistics shows staff's assessment of the granularity of the reported government operations data, while the bottom cell shows that of public debt statistics. The top cell for "Granularity" of Monetary and Financial Statistics shows staff's assessment of the granularity of the reported Monetary and Financial Statistics data, while the bottom cell shows that of the Financial Soundness indicators.

A	The data provided to the Fund are adequate for surveillance.
B	The data provided to the Fund have some shortcomings but are broadly adequate for surveillance.
C	The data provided to the Fund have some shortcomings that somewhat hamper surveillance.
D	The data provided to the Fund have serious shortcomings that significantly hamper surveillance.

Rationale for staff assessment. Data provided has some shortcomings but is broadly adequate for surveillance. The main shortcomings refer to the real sector statistics and weak inter-institutional cooperation between government agencies. Although national accounts compilation has been improving, quarterly GDP estimates are released usually with a lag of more than 90 days (and occasionally more than 90 days, e.g. Q2:2024), and subject to large revisions with discrepancies between the GDP compilation by the expenditure and by the production approach. This discrepancy affects the calculation of the GDP deflator, which is further complicated by the lack of data on service prices. In addition, shortcomings in the monitoring of contingent liabilities stemming from SOEs and PPPs limit the visibility of fiscal risks. The authorities also continue to report budget outturns on cash basis and with a coverage limited to central government, rather than accrual basis for general government. Errors and omissions remain sizeable, averaging over 1 percent of GDP and external statistics are occasionally subject to nonnegligible revisions. Various shortcomings in the Labor Force Survey result in a lack of reliable income indicators, while data on poverty are available with a substantial lag, compared to other CESEE countries.

Changes since the last Article IV consultation. The authorities have improved the monitoring of the balance sheet of state-owned enterprises, partly through the application of the IMF's SOE Health-check Tool, as well as on timely monitoring of PPPs. Following the adoption of specific regulation for the collection of data on the real estate sector, the Bank of Albania in 2024 has started collecting and analyzing data on commercial and residential lending.

Corrective actions and capacity development priorities. The Albanian statistical institute (INSTAT) is working on the creation tourism satellite accounts to better integrate granular tourism data into national accounts. In addition, technical assistance could help INSTAT improve the accuracy and timeliness of GDP statistics.

Use of data and/or estimates in Article IV consultations in lieu of official statistics available to staff. Staff do not use data and/or estimates different from official statistics.

Other data gaps. There are some data gaps in the coverage of non-bank financial institutions (NBFIs). No other major data gaps on climate or any other topic relevant for Fund surveillnace.

Table 2. Albania: Data Standards Initiatives

Albania participates in the Enhanced General Data Dissemination System (e-GDDS) and publishes the data on its National Summary Data Page since June 2017.

Table 3. Albania: Table of Common Indicators Required for Surveillance

As of December 10, 2024

	Data Provision to the Fund				Publication under the Data Standards Initiatives through the National Summary Data Page			
	Date of Latest Observation	Date Received	Frequency of Data[6]	Frequency of Reporting[6]	Expected Frequency[6,7]	Albania[8]	Expected Timeliness[6,7]	Albania[8]
Exchange Rates	30-Nov-24	1-Dec-24	M	M	D	1M	...	1D
International Reserve Assets and Reserve Liabilities of the Monetary Authorities[1]	Oct-24	Nov-24	M	M	M	1M	1M	1M
Reserve/Base Money	Oct-24	Nov-24	M	M	M	1M	2M	15D
Broad Money	Oct-24	Nov-24	M	M	M	1M	1Q	1M
Central Bank Balance Sheet	Oct-24	Nov-24	M	M	M	1M	2M	15D
Consolidated Balance Sheet of the Banking System	Oct-24	Nov-24	M	M	M	1M	1Q	1M
Interest Rates[2]	Oct-24	Nov-24	M	M	M	1M	...	1M
Consumer Price Index	Nov-24	Dec-24	M	M	M	1M	2M	8D
Revenue, Expenditure, Balance and Composition of Financing[3]–General Government[4]	Oct-24	Nov-24	M	M	A	1M	3Q	2M
Revenue, Expenditure, Balance and Composition of Financing[3]–Central Government	Oct-24	Nov-24	M	M	Q	1M	1Q	6W
Stocks of Central Government and Central Government-Guaranteed Debt[5]	2024Q3	Nov-24	Q	Q	Q	1M	2Q	2M
External Current Account Balance	2024Q3	Dec-24	Q	Q	Q	1Q	1Q	1Q
Exports and Imports of Goods and Services	2024Q3	Dec-24	Q	Q	M	1M	12W	17D
GDP/GNP	2024Q2	Oct-24	Q	Q	Q	1Q	1Q	1Q
Gross External Debt	2024Q2	Aug-24	Q	Q	Q	1Q	2Q	1Q
International Investment Position	2024Q2	Aug-24	Q	Q	A	1Q	3Q	1Q

[1] Includes reserve assets pledged or otherwise encumbered, as well as net derivative positions.

[2] Both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds.

[3] Foreign, domestic bank, and domestic nonbank financing.

[4] The general government consists of the central government (budgetary funds, extra budgetary funds, and social security funds) and state and local governments.

[5] Including currency and maturity composition.

[6] Frequency and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date; ("M") monthly or with lag of no more than one month after the reference date; ("Q") quarterly or with lag of no more than one quarter after the reference date; ("A") annual.; ("SA") semiannual; ("I") irregular; ("NA") not available or not applicable; and ("NLT") not later than.

[7] Encouraged frequency of data and timeliness of reporting under the e-GDDS and required frequency of data and timeliness of reporting under the SDDS and SDDS Plus. Any flexibility options or transition plans used under the SDDS or SDDS Plus are not reflected. For those countries that do not participate in the IMF Data Standards Initiatives, the required frequency and timeliness under the SDDS are shown for New Zealand, and the encouraged frequency and timeliness under the e-GDDS are shown for Eritrea, Nauru, South Sudan, and Turkmenistan.

[8] Based on the information from the Summary of Observance for SDDS and SDDS Plus participants, and the Summary of Dissemination Practices for e-GDDS participants, available from the IMF Dissemination Standards Bulletin Board (https://dsbb.imf.org/). For those countries that do not participate in the Data Standards Initiatives, as well as those that do have a National Data Summary Page, the entries are shown as "...".

INTERNATIONAL MONETARY FUND

ALBANIA

December 17, 2025

STAFF REPORT FOR THE 2024 ARTICLE IV CONSULTATION—INFORMATIONAL ANNEX

Prepared By

European Department in Consultation with Other Departments

CONTENTS

FUND RELATIONS

(As of November 30, 2024)

Membership Status: Joined October 15, 1991; Article VIII.

General Resources Account:	**SDR Million**	**Percent Quota**
Quota	139.30	100.00
IMF's Holdings of Currency	209.48	153.82
Reserve Tranche Position	26.00	18.67

SDR Department:	**SDR Million**	**Percent Allocation**
Net cumulative allocation	179.96	100.00
Holdings	181.27	100.73

Outstanding Purchases and Loans:	**SDR Million**	**Percent Quota**
Emergency Assistance[1]	34.83	25.00
Extended Arrangements	61.35	44.04

Latest Financial Commitments:

Type	Approval Date	Expiration Date	Amount Approved (SDR Million)	Amount Drawn (SDR Million)
Outright Loans				
RFI	Apr. 10, 2020	Apr. 15, 2020	139.3	139.3
Arrangements				
EFF	Feb. 28, 2014	Feb. 24, 2017	295.42	295.42
ECF[2]	Feb. 1, 2006	Jan. 30, 2009	8.52	8.52
EFF	Feb. 1, 2006	Jan. 28, 2009	8.52	8.52

Projected Payments to Fund:

(SDR Million; based on existing use of resources and present holdings of SDRs)

			Forthcoming		
	2024	**2025**	**2026**	**2027**	**2028**
Principal		69.88	21.52	4.77	
Charges/Interest		2.29	0.63	0.06	0
Total		72.17	22.15	4.83	0

[1] Emergency Assistance may include ENDA, EPCA, and RFI.

[2] Formerly PRGF.

Safeguards Assessments. The BoA made significant progress in addressing the 2022 safeguards assessment recommendations. The outstanding recommendation to amend the BoA law remains on hold to allow for requirements that may result from Albania's EU accession discussions.

Exchange Rate Arrangements: The *de jure* exchange rate system is classified as free floating. The *de facto* exchange rate arrangement has been reclassified as crawl-like (from floating), effective January 5, 2024, given (i) the monetary authorities sizable unscheduled intervention activity during 2024, relative to the FX interbank market volume, (ii) the behavior of the exchange rate, which followed an appreciating trend within a 2 percent band against the euro between January and October 2024, with one realignment in April 2024. Albania has accepted the obligations under Article VIII, Sections 2(a), 3, and 4, of the IMF's Articles of Agreement but continues to maintain an exchange restriction in the form of outstanding debit balances on inoperative bilateral payment agreements with two IMF member countries. Those debit balances were in place before Albania became a Fund member in 1991 and relate to debt in nonconvertible and formerly nonconvertible currencies. Despite repeated efforts by the Albanian authorities, no agreement has been reached with the counterparties. The Albanian authorities notified the Fund of further exchange rate restrictions introduced in accordance with Executive Board Decision No. 144 (52/51).

Article IV Consultation: Albania is on a 12-month cycle. The 2023 Article IV consultation was concluded on January 12, 2024 (IMF Country Report No. 2024/007).

Technical Assistance: The Fund, other multilateral organizations, and donors have provided extensive technical assistance for institutional development in Albania. The Fund has sent multiple technical assistance missions to Albania every year since 1991. The extent and focus of Fund TA since FY 2016 are briefly summarized below in Table 1.

FSAP Participation, ROSCs: The most recent FSAP was carried out in November 2013 (with a Board date of February 28, 2014). A data module ROSC was published on the Fund's website in June 2000. A fiscal ROSC was completed in June 2003. Albania participates in the enhanced General Data Dissemination System (e-GDDS), and a complete set of e-GDDS data with accompanying metadata for the external, financial, fiscal, and real sectors, as well as for the socio-demographic indicators, is posted on Albania's National Summary Data Page, which can be found on the Fund's Dissemination Standards Bulletin Board (http://dsbb.imf.org). A data module ROSC reassessment using the Data Quality Assessment Framework was conducted in March 2006.

Resident Representative: Mr. Sebastian Sosa from the regional office for the Western Balkans took his post on August 15, 2023 and oversees Albania's local office.

Table 1. Albania: Technical Assistance Since FY2016		
Department	**Purpose**	**Date (V=Virtual)**
FAD	Tax Administration	Multiple (nearly monthly) visits in 2018, February 2022, March 2022, June 2022 (TADAT), September 2022, November 2022, November 2023
	Revenue Administration	May 2021 (V), November 2021 (V), February 2022, March 2022, November 2022, May 2023, September 2023, November 2023, February 2024, April 2024, September 2024
	Public Financial Management	March–April 2016, July 2016, September 2016, October 2016, March 2017, September 2017, October–November 2017 December 2018, April 2019, May 2019, June 2019, November 2019, May 2020 (V), June 2020 (V), December 2020 (V), May 2021 (V), September 2021 (V), October 2021 (V), November 2021 (V), February 2022, May 2022, October 2022, June 2023, October 2023, July 2024, October 2024
	Tax Policy	June 2015, September 2016, September 2017; October 2017, June 2018, September 2018, January 2021 (V), October 2021 (V), May 2022, April 2023, October 2023, April 2024, November 2024
	Fiscal Transparency Evaluation	June 2015
	Public Investment Management	February 2022, May 2022, June 2022
LEG	Tax Law	March 2015, May 2015, June 2018, November–December 2018
	NPL Resolution	April 2015
	AML/CFT Laws Related to VA and VASPs	March 2021 (V), June 2021 (V)
	Public Investment Management (joint with FAD)	June 2022, July 2023
	Strengthening PPP Legal Framework	July 2023

Table 1. Albania: Technical Assistance Since FY2016 (concluded)		
Department	**Purpose**	**Date (V=Virtual)**
MCM	NPL Resolution	November 2015
	Central Bank Accounting and Official Foreign Exchange Transactions	October 2018
	Banking Supervision and Regulation	July 2015, May 2018
	Long-Term Resident Advisor on Monetary Policy	September 2015-August 2018
	Financial management and accounting policy framework	September 2018
	Monetary Policy Design and Implementation	January 2016, September 2016, December 2016, February 2017, September 2017, September 2018
	Long-Term Resident Advisor on Banking Supervision and Financial Stability	September 2017-July 2020
	Foreign Exchange Market Development	December 2019
	Cash, debt and liquidity management (joint with FAD)	June 2020
	Crypto Asset Regulatory Framework	May 2021 (V)
	Risks Management Framework for Investment Funds	June 2022
	Annual Borrowing Plan	October 2022
	IFRS 9 Implementation and capital structure review	February 2017 January 2018, November 2018
	Regulatory Framework for Investment Funds	June 2022
	Application of IFRS and Revaluation of Reserves	October 2023
	Strengthening Supervision of E-Money Institutions	March 2024
STA	External Sector Statistics	January 2016, April–May 2017
	Government Finance Statistics	May 2015, May–June 2016, November 2016, May 2017, June 2017, September 2017, April 2018, May 2018, November 2018, April 2019, May 2019, June 2019, July 2020 (V), June 2021 (V), Sept–Oct 2021 (V), March, May, 2022
	National Accounts Statistics	May 2015, April 2017, September 2017, March 2018, November 2019
	Enhanced General Data Dissemination System	April 2017
	Monetary and Financial Statistics	July 2017, April 2019

RELATIONS WITH OTHER INTERNATIONAL FINANCIAL ORGANIZATIONS

Albania collaborates with the World Bank Group, the European Bank for Reconstruction and Development (EBRD), the European Investment Bank (EIB), and the Council of Europe Development Bank. Further information can be obtained from the following hyperlinks.

World Bank Group (https://www.worldbank.org/en/country/albania)

European Bank for Reconstruction and Development (https://www.ebrd.com/albania.html)

European Investment Bank (http://www.eib.org/en/projects/regions/enlargement/the-western-balkans/albania/index.htm)

Council of Europe Development Bank (https://coebank.org/en/about/member-countries/albania/)

Statement by Mr. Riccardo Ercoli, Executive Director for Albania,
and Mr. Gianmarco Cocozza, Advisor to the Executive Director
January 17, 2025

On behalf of our Albanian authorities, we thank IMF staff for the fruitful discussions and the valuable recommendations provided in the context of a constructive 2024 Article IV consultation, and for the extensive technical assistance received last year on revenue administration, public financial management, tax policy, and monetary supervision. The authorities welcome staff's appraisal on the role played by their prudent macroeconomic policies and structural reforms in fostering macroeconomic and financial stability, and remain committed to consolidating the economic growth in a sustainable and inclusive way. The opening of the first accession chapters with the European Union (EU) and the approval of the authorities' reform agenda under the EU Growth Plan are key enabling factors towards socio-economic convergence to EU standards. Building on the sound banking sector and the resilient domestic financial system, the authorities remain committed to further reducing public debt, developing the domestic capital market, and improving the business climate.

Recent developments and outlooks

As noted by staff, strong economic performance is keeping Albania among the fastest growing economies in Europe. In 2024, economic growth and confidence indicators have exceeded the historical averages, driven by domestic demand and investments. According to the latest available data, in the third quarter of 2024 the year-on-year real economy grew by 4.1 percent, supported by broad-based growth across construction, services and public sectors. Hence, the authorities estimate that the 2024 expansion hovered at around 3.9-4.0 percent, slightly more positive than staff's projections, underpinned by, respectively, the 3.7 and 4.4 percent increases in private consumption and overall investments. Growth is set to remain steady over the medium term, supported by rising disposable incomes, healthy balance sheets of businesses and households, favorable financial conditions, and market confidence.

The expansion of the tourism sector has broad-based spillovers across the economy. After the remarkable 2023, tourism has continued to be an important pillar of domestic growth, with positive performance extending beyond the traditional peak season. In the first half of 2024, tourism invoices increased by 25.4 percent compared to the same period in 2023, while comparing the first ten months of 2024 and 2023 accommodation arrivals increased by 43 percent. The demand for new accommodation and tourism-related skills has driven upwards investment and labor demand in several sectors.

While employment and wages have been increasing, fostering private consumption, inflation has been effectively contained. The unemployment rate has dropped to a historical low of 10.7 percent at the end of 2023, with the employment rate peaking at 66.7 percent. Moreover, the annual per capita nominal income nearly tripled on average over the past decade, reaching the equivalent of 9,200 euro per year. Notwithstanding the strong wage and output growth, inflationary pressures have declined, thanks to the exchange rate appreciation, proactive monetary policies, and falling inflation in trading partners. The consumer price index grew by 2.2 percent on average in 2024, while the December 2024 year-on-year growth rate was 2.1 percent, stably below the 3 percent inflationary target. The authorities are confident that the monetary conditions are appropriate to gradually bring the inflation up to the target in the short term, supported by dissipating food price disinflationary effects, slower exchange rate appreciation, and firms' price setting decisions.

The external position has continued to strengthen, amid rising foreign investors' confidence and adequate net financial inflows. The 2024 current account deficit is projected at 3.4 percent of GDP, well below recent averages, thanks to the contribution of tourism and other net financial inflows. In detail, incoming foreign direct investments (FDIs) increased by 9.2 percent in 2023, and further grew by 8.1 percent in the first nine months of 2024 against the same period of the previous year, thanks to a diversified investors' base – mostly from Türkiye, Italy, and the Netherlands – mainly directed towards the real estate, financial and utility sectors. Remittances grew by 14.3 percent in the first nine months half of 2024, relative to the same period a year before.

The authorities concur with staff on the characterization of the risks to the outlook, which are balanced and manageable, noting the role of domestically generated hydropower in shielding the country from geopolitical shocks on energy. Furthermore, they remain committed to calibrating monetary, climate, financial and fiscal policies to address domestic, structural and conjunctural risks, and to strengthen the fiscal risk management.

Fiscal policies

Outperforming fiscal outturns and prudent debt management are supporting fiscal adjustment, while public debt meets the EU convergence criteria. The primary balance in 2024 remained positive, as in 2023, and is set to remain nonnegative in future years, in line with domestic fiscal rules. The authorities believe that a tighter fiscal stance in the short term is not warranted, given the need to accompany the positive momentum with adequate capital and social spending. Indeed, under the 2025 budget, more resources have been allocated towards public investments and social protection, without jeopardizing the objective of a positive primary balance. Public debt to GDP is continuing its gradual reduction path, underpinned by the favorable fiscal and growth outlook, the reduction of financing costs, the lek appreciation against the euro, and the lengthening of maturities; the authorities expect public debt to reach 55.5 percent at the end of 2025, decreasing from the 56.3 percent at the end of 2024. Moreover, the Public Financial Management (PFM) sectoral strategy 2023-2030 aims at delivering a transparent, accountable, efficient, and equitable PFM system, based on an integrated system of fiscal rules and a comprehensive Debt Sustainability Analysis framework, to be established by 2027.

The authorities are committed to consolidating the positive primary balance by improving the efficiency of revenue administration and property taxation, enhancing tax planning, while reducing the informal economy and strengthening anti-tax fraud investigations. These measures are in line with the Medium-Term Revenue Strategy (MTRS) approved with a Decision of the Council of Ministers in December 2024, whose implementation is a commitment under the EU Growth Plan; however, for caution, the effects of the MTRS have not been fully included in the Medium-Term Budget Framework projections. The elimination of the no-tax area for certain freelancers, whose anticipation in 2024 was repealed by the Constitutional Court, is still envisaged from 2030 onwards; soon after the Court ruling, the authorities processed the refunds for the tax prepayments received and deleted the remaining liabilities; they will also analyze some tax exemptions and reduced rates to assess how to offset the missed revenues by June 2025.

Monetary policies

The monetary stance, after having effectively curbed inflation, has been slightly loosened. Since the November 2024 cut by 25 basis points, the monetary authorities have left unchanged the policy rate at 2.75 percent, as monetary conditions and medium-term inflationary pressures are conducive to steadily reaching and maintaining the inflation target. They remain committed to taking future decisions based on the evaluation of domestic inflationary pressures, while expecting that the policy rate would converge to the estimated neutral rate of 4.5 – 5.5 percent over the medium term.

FX interventions have helped avoid excess volatility situations. The Bank of Albania has also strengthened foreign exchange reserves, to be more prepared against future portfolio volatility challenges. With respect to the reclassification of the de facto exchange rate arrangement, the Bank of Albania reaffirms its adherence to the free-floating regime and to treat the flexible exchange rate as the main shock absorber, while noting that some FX interventions may be needed in exceptional circumstances, for instance against fluctuations amplified by non-fundamental factors and also to build an adequate buffer of foreign reserves.

Financial sector policies

As staff notes, the financial sector is overall healthy and sustainable. Bank capitalization has increased, the capital adequacy ratio reached 20.2 percent, liquidity positions are above the regulatory thresholds, while bank profitability slowed on account of the record high growth in 2023 and the increase in operating expenses. Banking sector activities have continued to expand, supported by favorable financial conditions and lower risk premia, and outstanding credit grew by 11.2 percent on an annual basis as of October 2024. At the same time, credit quality did not deteriorate, as non-performing loans ratio reached in November 2024 the lowest level in the decade, at 4.5 percent of total loans. Moreover, the non-banking financial sector showed positive performance and profit improvement.

Financial sector risks remain manageable, thanks to prudent supervision and macroprudential measures. The stress tests conducted by the Bank of Albania for 2024-2026 show that the banking sector can withstand significant macroeconomic shocks. Further to the rapid credit growth, the Bank of Albania has increased the countercyclical capital buffer (CCyB) to 25 basis points, effective June 2025, and by an additional 25 basis points, to 0.50 percent, effective December 2025, and is committed to regularly monitoring the macroprudential buffers and the regulatory capital requirements. Developments in the real estate sector are being monitored, although pressures are moderating both on the demand and the supply side. The authorities stand ready to consider borrower-based measures and to discuss with the Fund and other international partners how to move towards a positive neutral CCyB and potential sector-specific systemic risk buffers (SyRB), without unduly hampering access to credit. Banks' exposure to the non-banking sector remains low, and the risks for the latter are controlled and stable.

Financial authorities have made significant progress towards technological integration and harmonization with EU standards. From this perspective, the membership in the SEPA, reached on 21st November 2024, has fostered integration with the EU financial system for cross-border euro-denominated payments. Moreover, a new regional instant payment platform, provided by the Bank of Italy to the Bank of Albania and other Western Balkans' central banks, is set to become operative by mid-2026; the platform will replicate the Eurosystem Target Instant Payment

Settlement (TIPS), to pave the way for its smoother integration after the EU accession. The authorities are aware that the EU accession will also bring new challenges for the financial sector, and, in this context, in November 2024 they officially requested to participate in the Financial Sector Assessment Program (FSAP).

Structural policies

The authorities have taken several policy steps to fulfill their EU accession aspiration. Guided by the National Strategy for Development and European Integration (NSDEI) and by the reform agenda under the EU Growth Plan, the authorities are committed to undertaking several important economic, social and institutional reforms by 2030. The EU Growth Plan is in line with the National Plan for European Integration, and focuses on the business environment, energy and green transition, transports, human capital, digital infrastructure, and the rule of law. Some of the commitments include:

- **Promoting business opportunities**, by reducing the administrative burden on enterprises, modernizing the legal framework for public-private partnerships, and enhancing the accountability of State-owned enterprises.
- **Developing the energy market**, by enabling its integration with the EU electricity market, implementing the Directive on renewable energy sources, and establishing an Emission Trading System (ETS).
- **Fostering human capital**, through a reassessment of active labor market programs, and the modernization of the education and training system.
- **Strengthening the rule of law**, by aligning the legal and regulatory framework with the EU standards on the judicial system and anti-corruption; in this context, an Asset Recovery Office will be established.

Additional steps have been made to tackle informal employment and corruption, in line with the EU best practices. The EU-funded Youth Guarantee program has concluded its 2024 pilot phase, supporting 1,500 young people with active labor market or education initiatives. Since the removal from the FATF/MONEYVAL grey list in October 2023, the authorities have further improved their technical compliance and adopted a new AML/CFT National Strategy. The 2024-2030 Intersectoral Anti-Corruption Strategy, which concluded its public consultation period in December 2024, is also aligned with the EU agenda. Moreover, the authorities have enhanced the transparency of public finances, and in this context they launched in December the Albania Transparency platform to disseminate information about budget expenditures.

Going forward, the authorities are committed to fostering economic diversification. They recognize the importance of enhancing access to credit for micro, small, and medium-sized enterprises, and have established a new government agency, Start-up Albania, to facilitate the incubation period of new businesses. At the same time, they are leveraging the tourism potential of the country by modernizing and expanding the national airport system, with the new Vlora International Airport set to begin operations in 2025.