Albania and the IMF

Albania: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

May 10, 2016

The following item is a Letter of Intent of the government of Albania, which describes the policies that Albania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Albania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.
Ms. Christine Lagarde  
Managing Director  
International Monetary Fund  
Washington, DC 20431

Dear Ms. Lagarde:

1. The Extended Arrangement approved by the Executive Board of the International Monetary Fund (IMF) in February 2014 remains the anchor of our economic policies. The attached Memorandum of Economic and Financial policies (MEFP) reviews progress in implementing the program and outlines the policies that the government and the Bank of Albania (BoA) will pursue over the next twelve months.

2. Performance under the program has been strong. All end-December, available end-April, and continuous performance criteria were met, as were most indicative targets. The indicative targets on contracting non-energy guarantees and the accumulation of new arrears were missed by small margins. The government is implementing remedial measures and most of the newly accumulated arrears will be settled by mid-2016. We are currently awaiting data to assess two end-April performance criteria on general government primary modified cash balance and primary expenditure, and we expect them to be met based on available data.

3. Most structural benchmarks were implemented, though one was implemented with a delay as a prior action, and one more is proposed to be rescheduled. Amendments to the Budget Law incorporating multi-year commitment limits were submitted to Parliament in early May 2016, as a prior action. The roll-out of the new treasury IT system (AGFIS) to 15 budget institutions was delayed to end-May 2016, to allow time to train new users of the system. The adoption of an implementation plan to restructure the tax agency’s headquarters was delayed to May, to allow sufficient time for fine-tuning the plan.

4. Our policy priorities over the next twelve months are to continue pursuing fiscal consolidation, safeguard financial sector stability, revive credit growth, and implement growth-enhancing reforms. In particular, we will persist with ambitious reforms in revenue administration, public financial management, and the electricity sector.

5. Implementation of our program will be monitored by the Fund through reviews, quantitative
performance criteria, indicative targets, and structural benchmarks, as described in the attached MEFP and Technical Memorandum of Understanding (TMU). While we are confident that the policies described in the MEFP are adequate to achieve program objectives, we stand ready to take additional measures that may be required for this purpose. We will consult with the Fund on the adoption of such measures, as well as in advance of any revisions to the policies contained in this letter and the MEFP. The government of Albania will provide the IMF with such information as it may request to monitor progress in economic and financial policy implementation.

6. In view of the strong program performance to date and the strength of policy commitments for the period ahead, we request that the Executive Board of the IMF complete the seventh review under the Extended Arrangement. We further request the purchase of SDR 28.65 million. We request a waiver of applicability for the two end-April performance criteria on general government primary modified cash balance and primary expenditure, given the unavailability of data for assessing these. We also request the modification of performance criteria, as described in Table 1 of the MEFP and in the TMU.

7. We wish to make this letter available to the public, along with the attached MEFP and TMU, as well as the IMF staff report on the seventh review under the Extended Fund Facility. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official websites of the Albanian government.

Sincerely,

/s/  
Arben Ahmetaj  
Minister of Finance

/s/  
Gent Sejko  
Governor, Bank of Albania

Attachments: Memorandum of Economic and Financial Policies  
Technical Memorandum of Understanding
Attachment I. Memorandum of Economic and Financial Policies

1. This Memorandum lays out the Government of Albania’s policy priorities for the period ahead, supported by the IMF’s Extended Fund Facility. Our policies seek to generate higher living standards and better employment opportunities for Albanians. Achieving these goals will require sustained efforts to reduce debt-related vulnerabilities, revive credit growth, and unlock structural constraints to medium-term growth.

Recent Economic Developments

2. Economic growth picked up in 2015, despite significant headwinds. Weak demand in the Euro Area as well as low international commodity prices reduced export growth, while economic uncertainties arising from financial turmoil in Greece also weighed on domestic demand. The resulting broad-based weakness in mining and services was, however, offset by strong hydropower generation, a pickup in construction and manufacturing, continued arrears clearance, higher tourism receipts, and stronger domestic and foreign private investment. As a result, real GDP growth reached 2.6 percent in 2015. However, the economy continues to operate below its potential. Domestic slack and declining international commodity prices have resulted in very low headline inflation. CPI inflation fell to 0.3 percent in March 2016, due mostly to one-off supply shocks such as decreases in food and fuel prices. The current account deficit is expected to have narrowed to around 11 percent of GDP, given improvements in tourism receipts and higher net electricity exports that offset the decline in commodity exports.

Outlook

3. The economic recovery is expected to gather further momentum in 2016, driven by rising domestic demand. GDP growth is projected to increase to 3.4 percent in 2016, benefiting from continued strength in hydropower generation and FDI inflows, the lifting of the moratorium on construction permits, improved consumer confidence, and continued low interest rates. These effects are expected to offset the drop in domestic oil production and related investment, as well as the fiscal drag from the end of the central government’s arrears clearance program. Given the persistent negative output gap and the deflationary impulse from global commodity prices, average headline inflation for 2016 has been revised downwards from 2.3 to 1.9 percent. However, medium-term inflation expectations remain anchored by the BoA’s target of 3 percent.

4. The current account deficit is likely to remain elevated throughout 2016–17. The current account deficit is projected to widen to around 12½ percent of GDP this year. Imports are projected to remain high on the back of large infrastructure projects (such as the Trans Adriatic Pipeline and the Statkraft/Devoll hydropower plant), while low commodity prices are expected to continue weighing down on exports. After several years of decline, remittances have picked up but are expected to remain below their pre-crisis peak, given economic uncertainties in Greece and Italy, the main source countries. The current account will continue to be financed largely by FDI. Over the medium term, the current account deficit is expected to narrow because of improvements in export
capacity and falling import needs of the major FDI projects. Gross official reserves are expected to cover around 5½ months of imports of goods and services in 2016–17.

**Program Implementation**

5. All December, available end-April, and continuous performance criteria were met, as were most indicative targets (Table 1). The ceilings on the government’s cash deficit and expenditure were met with large margins, due to expenditure savings and a non-tax revenue windfall, both of which offset broad-based weakness in tax revenues. The December ceiling on contracting non-energy guarantees was missed by a very small margin (0.03 percent of GDP). Going forward, we are proposing to remove this IT, as non-energy guarantees are now fully captured in our fiscal framework. The zero ceiling on the accumulation of central government domestic arrears was also not met. Results from the triannual survey of ten key ministries and the General Directorate of Taxation (GDT) show a stock of 1.3 billion lek of new arrears at end-December 2015 (0.09 percent of GDP). The bulk of new arrears was due to road construction projects and court decisions. All accumulated arrears will be repaid by mid-2016, except for those on court decisions, which will be settled in accordance with a special Council of Ministers decision. We will also seek rapid implementation of multi-year commitment limits, and have expedited related amendments to the Budget Law.

6. Most structural benchmarks were implemented, though one was implemented with a delay as a prior action, and one more is proposed to be rescheduled (Table 3a):

- In the area of public financial management, the regular report on the accumulation of new arrears was published on time. The roll-out of the new treasury IT system (AGFIS) to 15 budget institutions is proposed to be rescheduled to end-May 2016, to allow time to train new users. Amendments to the Budget Law incorporating multi-year commitment limits were submitted to Parliament in early May 2016, as a prior action.

- In the area of tax administration, the adoption of an implementation plan to restructure the GDT’s headquarters was delayed to May, to allow sufficient time for fine-tuning the plan.

- In the electricity sector, we prepared the regular quarterly survey of the consolidated arrears of state-owned enterprises in the electricity sector to the private sector. We also published for the first time the quarterly financial statements of KESh and OShEE, the state-owned generation and distribution companies.

**Economic Policies for 2016**

**A. Fiscal Policy**

7. We commit to continuing with fiscal consolidation in order to reduce debt-related vulnerabilities which hamper growth and cause macroeconomic instability. We intend to pursue a steady pace of fiscal consolidation based on a strategy of broadening the tax base and strengthening tax administration and compliance, with the goal of lowering the public debt-to-GDP
ratio below 60 percent by 2019, from around 72 percent at end-2015. This path will be consistent with undertaking measures of at least 1 percent of GDP annually. The recent credit rating upgrade is a vote of confidence for our fiscal consolidation strategy. To improve debt management, we will also increase staffing levels and strengthen capacity at MoF’s debt management unit.

8. We remain committed to achieving our target of a primary surplus of 0.3 percent of GDP in 2016. The renewed slide in global oil prices is posing a risk to oil-related royalties, VAT, and customs collections. To minimize the potential implications of this risk, we have committed to maintaining strict budgetary discipline, ensuring savings in current expenditure, and strengthening the revenue base and tax compliance. We commit to taking additional measures, if needed, to meet the 2016 target.

9. To address the structural roots of revenue underperformance in 2015, we have undertaken several additional reform measures:

- In early September 2015, we launched a large-scale reform effort against tax evasion, non-compliance, and informality. Our reform effort has already yielded a large increase in the number of registered small businesses and employees. We are refocusing our effort on high-risk segments, in line with our compliance risk management strategy. We remain prudent in projecting the revenue gains from our reform effort in 2016. Although we expect them to be higher, we have limited them in our budget projections to 4 billion lek (0.3 percent of GDP), from social contributions by newly registered workers. We have also frozen 4 billion lek in capital expenditure and have made it contingent on additional revenues from our reform effort.

- We are addressing weaknesses in revenue forecasting and monitoring. We are enhancing the coordination among the Ministry of Finance (MoF) and the General Directorates of Taxes and Customs (GDT and GDC). In September 2015, a dedicated revenue unit was established and commenced operations at MoF. The unit prepared its first survey of tax expenditures for the 2016 budget and will update this survey annually. With help from Fund TA, we will expand the survey to incorporate exemptions administered by the GDT, and we will broaden the definition of tax expenditures to include preferential tax rates. The survey will also include a rationale and, eventually, an efficiency assessment for each tax expenditure.

- We commit not to grant any further tax exemptions or preferential tax rates, without consulting with the IMF. This complements the efforts aimed at broadening the tax base by closing tax loopholes, simplifying tax administration, and creating a more level playing field.

- We have planned sufficient buffers in the budget to cope with the outcome of pending tax disputes, in order to protect the end-year primary balance target for 2016. In particular, large unbudgeted windfalls due to disputed tax payments will be adjusted under the program until the tax dispute is resolved.

10. We are making good progress in reducing the heavy burden the electricity sector places on public finances, while addressing the infrastructure gap. The financial gap in the sector reflected
mostly low collection levels and large network losses. We have implemented an ambitious set of reforms in the sector (see ¶27) that have started to reduce the structural imbalances. Therefore, we aim to limit public guarantees and policy net lending to the sector to 7 billion lek in 2016 and 6.5 billion lek in 2017, with the aim of completely eliminating power sector subsidies by 2020. Subsidies to the electricity sector are transparently reflected in the fiscal accounts under the program and in our budget. If government support to the electricity sector exceeds the annual programmed amount, we commit to taking offsetting fiscal measures to meet the program’s fiscal targets.

11. We are addressing other emerging and potential risks to the baseline fiscal framework:

- **Local government reform:** Following local elections in mid-2015, 61 local government units replaced the previous 373 communes and municipalities. We are pursuing an ambitious fiscal decentralization strategy, by devolving certain functions, transferring personnel, and providing new financing sources for local governments. A recent survey commissioned by the Ministry of State for Local Government took stock of the finances of the new consolidated units as of mid-2015, and revealed a potentially significant stock of local government arrears. However, these arrears remain to be audited. We will require that local governments promptly conduct audits and prepare action plans by end-September 2015, which will provide for the clearance of the legacy stock of arrears, out of their own resources, in a comprehensive and transparent way, with external auditors ensuring the integrity of the process. The dedicated unit at MoF which continuously monitors the finances of local governments is adequately staffed and will start preparing quarterly surveys of local government arrears, starting with end-March 2016. With help from USAID and the World Bank, we are reviewing the legal framework on local public finance, in order to improve reporting requirements and tighten monitoring.

- **Capital expenditure:** Outstanding unbudgeted investment projects continue to exceed the government’s ability to absorb them in its Medium-Term Budget Framework (MTBF). We have now made public the total cost and sunk cost of each outstanding project. The Ministry of Economy (MoE) has published a list of all projects that the 2016 budget will support, including an indicative budget for each project for all three years of the MTBF, in order to signal our intention to implement only projects included in the list. Going forward, our National Investment Committee will review all outstanding unbudgeted investment projects. Based on transparent criteria, which we will prepare by end-May, we will compile a priority ranking for all such projects and identify projects that will be cancelled by end-September, conditional on a legal review.

- **Arrears prevention:** The process of clearing the pre-2014 stock of central government arrears is now complete, and our focus is shifting toward prevention. The small amounts of outstanding pre-2014 arrears will be paid directly by budgetary institutions out of their allocations. We are reinforcing public financial management to prevent the accumulation of new arrears at all levels of government. By end-May 2016, we will extend our new treasury IT system (AGFIS) to 15 budget institutions (accounting for 84 percent of the budget) and one local government. We are also implementing revenue administration reforms and streamlining public investment management to prevent the recurrence of new arrears (see ¶12 and ¶17).
Public Private Partnerships (PPPs): We are in the process of amending the Budget Law to strengthen MoF’s role in the ex ante assessment of PPP proposals and their subsequent monitoring, to integrate PPPs into the budgetary process, and to limit the total stock of PPPs. We also plan to review our PPP law to strengthen MoF oversight, integrate PPPs into the broader public investment monitoring framework, and ensure consistency with the amendments to the Budget Law. To limit fiscal risks from PPPs, we will ensure that they follow international best practice and that their related fiscal costs and contingent liabilities are transparently accounted for in the fiscal accounts and debt statistics. Toward that objective, we will empower INSTAT to review PPP contracts in accordance with ESA and eventually IPSAS. By mid-2016, we will launch a public register of all active PPP projects and will also publish summaries of all PPP contracts as well as the contracts themselves (excluding confidential or protected information), to ensure transparency for the commitments made by the government. All future PPPs will be subject to a proper feasibility study and value-for-money analysis by the newly established fiscal risks unit at the MoF. The unit will be fully staffed by end-June 2016. By end-2016, the unit will start evaluating fiscal risks (including those stemming from all active PPPs and concession contracts and from local government arrears), propose measures to mitigate them, and provide risks assessments to be included in budget document submissions to Parliament. Technical assistance from the Fund and other international partners will continue to help assess our current legal and regulatory framework and suggest recommendations for improvement.

B. Medium-term Fiscal Structural Reforms

12. Advancing tax administration reforms is a key policy priority that underpins our fiscal consolidation strategy. We remain fully committed to implementing the GDT reforms laid out in its corporate strategy. By end-June 2016, the Large Taxpayer Office will be restructured, with specialization according to business sectors, and the Risk Management Unit will be fully staffed to enable it to identify major compliance risks and develop mitigating strategies. The GDT has started phasing in a modern compliance risk management approach for one major risk cluster, and will commence another one by end-September 2016, with help from Fund TA. By end-2016, the GDT will streamline its regional and local office structure, in order to match business needs. The taxpayer service function will also be upgraded to deliver easy-to-understand and accessible guidance to taxpayers based on their needs and compliance risks, using a variety of communication channels. Finally, by end-2017, the GDT will conduct a comprehensive review of its audit function.

13. We are moving forward with reforms in customs administration. The GDC is working on a restructuring proposal, which benefited from the recommendations provided by the external consultant on customs administration. The GDC will accelerate discussions with customs authorities in neighboring countries to develop real-time intelligence sharing on smuggling risks. It will upgrade the fiscal stamps system to conform to international “track and trace” standards set out in the Framework Convention for Tobacco Control. The GDC will put in place more effective measures to supervise and monitor fuel movements, including through the use of remote GPS-based surveillance in high-risk areas. To reduce subjectivity in customs assessments, GDC will create a
national customs assessment online portal. Finally, GDC will introduce online monitoring of customs warehouses.

14. Closer cooperation and information sharing between the GDT and GDC will enhance revenue administration reform efforts. In particular, the risk management units of the two revenue agencies have started sharing data and performing joint risk analysis and monitoring. Nevertheless, the merger of the two departments remains a medium-term objective which will be guided by Fund TA. Any related decisions will be taken in consultation with IMF staff.

15. We commit to accelerating the work on a fiscal cadastre, with the goal of introducing a valuation-based property tax by end-2017. The reform will be undertaken in consultation with Fund TA. As a first step, we plan to introduce a fiscal cadastre to assess tax for each property by end-2016. In parallel, we will develop a valuation formula and methodology, and draft the related legislation by end-September 2016.

16. In consultation with IMF TA, we are taking steps to shore up the credibility of our MTBF. MoF will continue to align its budget projections and macro framework with independent external forecasts, such as those produced by the BoA and international financial institutions. Starting with the 2016 budget, the MTBF now contains the total approved cost, the sunk cost so far, and remaining cost beyond the three-year window of the MTBF for all projects. In 2016, MoF will develop a methodology for distinguishing core allocations from new policy initiatives in the MTBF, in order to focus attention on the costing of new policies and prevent them from squeezing existing ones for resources. Starting with the 2017 budget, the MTBF will begin to make that distinction at the sectoral and program level. We are also working on a fiscal responsibility law, which will provide for a fiscal rule and a fiscal council.

17. We are seeking to improve the process for evaluating, selecting, executing, and monitoring public investment projects. Our top priority is to improve coordination among the various government bodies sharing responsibility over public investment management. As a first step, we recently transferred the public investment portfolio from the Ministry of the Economy back to MoF. To strengthen coordination, we have been training experts in line ministries on the public investment cycle. We have also compiled a manual that spells out the public investment process, in order to provide a handy reference to the laws and regulations guiding the process. We will seek to strengthen the process further, in line with the recommendations from the recent Public Investment Management Assessment. In particular, we will integrate SOEs and Regional Development Fund (RDF) projects into our MTBF, the budget cycle, and the public investment monitoring framework. We will review and streamline project classification to reduce fragmentation. We will fully staff and operationalize the public investment management unit in MoF, as well as strengthen the appraisal process for major projects. Finally, we will establish a unique project pipeline for large projects, based on clear criteria linked to national priorities.
C. Monetary and Exchange Rate Policy

18. The BoA remains committed to achieving an average annual CPI inflation of 3 percent over the medium term under an inflation-targeting framework. Monetary policy will also strive to smooth out the macroeconomic cycle and to avoid excessive volatility in the financial sector. Inflation performance will continue to be monitored under the program through an Inflation Consultation Clause.

19. Monetary policy is likely to remain accommodative for the foreseeable future given weak underlying inflationary pressures. Furthermore, the overall balance of risks is skewed to the downside due to continued domestic slack and external disinflationary pressures. The monetary policy transmission mechanism is hampered by high risk aversion in the banking system. We expect inflation to gradually converge to 3 percent over the medium term, as improved bank balance sheets and the crowding-in effect from lower domestic public debt strengthen credit flows to the private sector. There is still space for conventional easing and any decisions on additional measures will be taken in consultation with IMF staff.

20. Exchange rate flexibility complements our price stability objective and supports our operational framework for monetary policy. The exchange rate is determined entirely by market forces, and the BoA undertakes only small pre-announced interventions in the foreign exchange market. The BoA will aim to maintain adequate reserve coverage over the medium term. For the duration of the program, we will not impose or intensify restrictions on the making of payments and transfers for current international transactions, nor impose or modify any multiple currency practices, nor conclude any bilateral payments agreements that would violate our obligations under Article VIII of the IMF’s Articles of Agreement. Also, we will not impose or intensify import restrictions for balance of payments reasons. Finally, we will continue with our efforts to resolve the outstanding balances on inoperative bilateral payment agreements.

21. We will strengthen coordination and information sharing between the BoA and the MoF on liquidity and debt management. MoF will discuss with BoA in advance any external or domestic debt operations to ensure orderly market conditions and avoid excessive financial volatility.

D. Safeguarding Financial Sector Stability

22. The BoA is maintaining its supervisory vigilance, with a focus on the fastest-growing and systemically important segments of the banking system. Systemically important banks are now required to develop and maintain recovery and resolution plans, which are currently being assessed by the BoA with assistance from the World Bank. Measures adopted earlier to counteract the slowdown in credit growth, including changes to capital requirements designed to encourage moderate credit growth and discourage outflows to non-resident entities, have been extended temporarily. To maintain consistency with international standards and ensure healthy capitalization in the banking system, we will unwind these measures by the end of 2016, while retaining measures discouraging bank outflows to non-resident entities, as appropriate. We will work with banks to ensure a smooth transition during this process. The BoA will raise capital requirements on systemic
banks that expand into non-banking activities. The central bank will also strengthen its monitoring of loans to unhedged borrowers, with the aim of reducing their share in total outstanding credit from its current elevated levels. If necessary, the BoA will take appropriate macroprudential actions to further constrain borrowing in foreign currency by unhedged borrowers.

23. Given delays in external debt issuance caused by financial turmoil in Greece in 2015, the BoA undertook temporary measures to avoid disruption in the government debt market. In particular, the central bank reduced the risk weights on Albanian government securities issued in foreign currency from 100 to 50 percent. The BoA will gradually roll back this measure by 2021 and ensure that any additional investments by banks in such securities, compared to the levels in December 2015, will be risk-weighted at 100 percent.

24. We are committed to implement further regulatory and legal reforms to reduce NPLs and promote sound credit growth. Following the implementation of a regulatory requirement for mandatory NPL write-offs, NPLs have declined to 18 percent at end-December 2015 from a peak of 25 percent in September 2014. The 2015 strategy to address the NPL issue is now coordinated by the Ministry of Finance. The strategy integrates and sequences the following reforms in the areas of supervision, enforcement, debt restructuring, and insolvency:

- The BoA has revised the terminology on write-offs, changed the time limit for holding repossessed collateral on banks’ books, and improved the regulatory framework for NPL sales.

- We have prepared an action plan for handling the 35 largest holders of NPLs. In addition, we submitted to Parliament amendments to the Law on the Registration of Immovable Properties and we are working on amendments to the Law on Securing Charges, in order to better protect financial collateral and to increase the legal certainty of security rights over real estate.

- By end-June 2016, the BoA will adopt measures to accelerate the reduction of NPLs through the use of out-of-court debt restructuring, and will also amend regulations to require banks to grant loans based on companies’ fiscal declarations, starting in January 2018.

- Also by end-June 2016, we will set up coordination mechanisms between BoA and GDT to integrate the tax authority into the collateral execution process. To further facilitate this process, the BoA will coordinate with the MoF to streamline the tax treatment of NPLs, NPL sales, and collateral recovered in judicial procedures.

- With technical assistance from the World Bank and the IMF, the Ministry of Justice will submit a new bankruptcy law to Parliament by end-June 2016. It will incorporate best international practices, simplify the existing framework, allow for expedited approval of reorganization plans, and protect the economic and governance rights of secured and unsecured creditors.

- By end-September 2016, we will submit to Parliament amendments to the Civil Procedure Code and the Private Bailiffs Law to increase the efficiency of litigation, foreclosure procedures, and debt collection.
Finally, by end-December 2016, we will upgrade the Credit Register (for example, by adding ongoing legal cases).

25. AFSA is strengthening its toolbox and capacity to monitor non-bank financial institutions. The final vacancy on AFSA’s executive board was filled in January 2016 and the full board is now operational. To build up capacity, AFSA will adopt policies and procedures which will allow it to attract and retain skilled staff. AFSA is monitoring closely the transition of investment funds to the new regulatory framework on asset valuation and liquidity adopted in mid-2015. AFSA will assess carefully all license applications for new investment funds to protect financial stability. Finally, AFSA will encourage competition among investment fund custodians, and will conduct stress tests and a crisis preparedness exercise in this market segment.

26. The BoA is making progress on implementing the recommendations of the 2015 safeguards monitoring report. The Internal Audit Department will continue to update the Supervisory Council’s Audit Committee on a semiannual basis on the implementation status of external and internal auditors’ recommendations, including those related to improving controls over currency operations. The BoA has prepared its 2015 financial statements in accordance with the IFRS. We have launched the process of amending the BoA Law, taking into account recommendations from IMF staff, in order to strengthen the central bank’s institutional and operational independence and improve its governance and operations.

**E. Structural Reforms**

27. We are encouraged by the early results from our efforts to reduce losses and improve collections in the electricity sector. Distribution losses—unbilled power as a share of total power entering the distribution system—fell from 45 percent in 2013 to 31 percent in 2015. We are committed to reducing distribution losses to 14 percent by 2019. We will ensure that budgetary, non-budgetary, and local government institutions make timely and full payments on their electricity bills. Further reforms will focus on improving corporate governance, which is key for the sustainability of the electricity sector. We are moving forward with contracting an advisory services consultant for the distribution company, and expect the new team to be in place by end-2016. We have started publishing quarterly financial statements for the generation and distribution companies, KESH and OShEE, and we will start publishing these for the transmission company OST as well. The Ministry of Energy and Industry and MoF will strictly monitor KESH and OShEE’s investment plans and economic performance on a monthly basis to ensure financial discipline and value for money. Finally, in order to reduce financial risks, we will restructure the overdraft borrowing by electricity SOEs.

28. The new power sector law was approved by Parliament in May 2015. It restructures the relationship among the three public power companies responsible for generation, transmission, and distribution (KESH, OST, and OShEE) and moves toward further market liberalization, in line with the EU’s 2009 Electricity Directive. The law sets in place a schedule for moving all medium-voltage customers out of the regulated tariff structure by end-2017, beginning with 35kV customers by
mid-2016 and 20kV customers by end-2016. On completion, the share of deregulated consumption would increase from 13 to 33 percent of the total energy consumed. Furthermore, we plan to undertake a review of our current tariff methodology in cooperation with the World Bank, in order to make tariff adjustments more frequent and automatic. We are also developing a power exchange and pursuing integration with the electricity markets of neighboring countries.

F. Statistics

29. INSTAT will continue with its efforts to improve the quality of macroeconomic statistics. By end-June 2016, we will submit a revised Law on Statistics to Parliament, in order to strengthen INSTAT’s institutional independence and provide adequate legal support for more effective cooperation and coordination among INSTAT, MoF, and BoA. By end-2016, the three institutions will establish a Memorandum of Understanding detailing processes and responsibilities for data sharing, source data collection, and statistical compilation.

Program Monitoring

30. We anticipate that the eighth, ninth, and tenth program reviews will take place on or after July 15, 2016, November 15, 2016, and February 15, 2017, respectively. Each review will require observance of conditionality for the most recent test date.
Table 1. Albania: Quantitative Performance Criteria and Indicative Targets for 2014–16
(In billions of leks, unless otherwise indicated)

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<td>1. Floor on net international reserves of the BoA (EUR million)</td>
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<td>2a. Ceiling on general government overall cash deficit (cumulative)  / 2/</td>
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<td>6.0</td>
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<td>2b. Floor on general government primary modified cash balance (cumulative)</td>
<td>181.2</td>
<td>274.7</td>
<td>406.0</td>
<td>141.6</td>
<td>144.9</td>
<td>124.5</td>
<td>280.0</td>
<td>281.2</td>
<td>259.0</td>
<td>457.5</td>
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<td>3a. Ceiling on general government expenditure (cumulative) / 2/  / 3/</td>
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<td>4.0</td>
<td>4.0</td>
</tr>
<tr>
<td>3b. Ceiling on general government primary expenditure (cumulative)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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</tr>
<tr>
<td>4. Ceiling on the increase of Bank of Albania credit to the general government (cumulative) / 2/  / 3/  / 4/</td>
<td>-0.1</td>
<td>-0.2</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<tr>
<td>II. Continuous Performance Criteria</td>
<td></td>
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</tr>
<tr>
<td>5. Accumulation of new external payment arrears by the general government (EUR million)</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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</tr>
<tr>
<td>III. Inflation Consultation</td>
<td></td>
<td></td>
<td></td>
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</tr>
<tr>
<td>6. 12-month percent change in consumer prices</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
<td>5.0</td>
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<tr>
<td>IV. Indicative Targets</td>
<td></td>
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</tr>
<tr>
<td>7. Ceiling on subsidies to the energy sector (percent, cumulative from beginning of year)</td>
<td>4.4</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
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</tr>
<tr>
<td>8. Ceiling on average distribution losses by energy distribution company (OSHEE)</td>
<td>37.0</td>
<td>33.2</td>
<td>34.5</td>
<td>31.7</td>
<td>34.0</td>
<td>31.3</td>
<td>31.3</td>
<td>31.3</td>
<td>31.3</td>
<td>31.3</td>
<td>31.3</td>
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<td>31.3</td>
<td>31.3</td>
<td>31.3</td>
<td>31.3</td>
</tr>
<tr>
<td>9. Ceiling on contracting nonenergy guarantees</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
</tr>
<tr>
<td>10. Ceiling on accumulation of central government domestic arrears (as reported by MoF’s survey on arrears accumulation)</td>
<td>0.4</td>
<td>1.1</td>
<td>0.4</td>
<td>0.3</td>
<td>0.0</td>
<td>1.1</td>
<td>0.0</td>
<td>1.1</td>
<td>0.0</td>
<td>1.3</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>11. Floor on clearance of central government domestic arrears  / 5/</td>
<td>1.0</td>
<td>1.0</td>
<td>2.0</td>
<td>0.9</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
<td>1.0</td>
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<tr>
<td>Memorandum Items</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>New energy guarantees (excluding rollover)</td>
<td>4.4</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
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<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
</tr>
<tr>
<td>Privatization receipts</td>
<td>4.4</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
<td>4.6</td>
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<td>4.6</td>
<td>4.6</td>
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</tr>
<tr>
<td>On-off revenues</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
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<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Total non-grant revenues</td>
<td>126.8</td>
<td>253.7</td>
<td>252.0</td>
<td>370.2</td>
<td>367.5</td>
<td>126.8</td>
<td>253.7</td>
<td>252.0</td>
<td>370.2</td>
<td>367.5</td>
<td>126.8</td>
<td>253.7</td>
<td>252.0</td>
<td>370.2</td>
<td>367.5</td>
<td>126.8</td>
<td>253.7</td>
<td>252.0</td>
</tr>
<tr>
<td>Project grants</td>
<td>4.7</td>
<td>2.6</td>
<td>3.9</td>
<td>3.5</td>
<td>10.0</td>
<td>11.2</td>
<td>3.2</td>
<td>8.9</td>
<td>12.2</td>
<td>17.8</td>
<td>17.8</td>
<td>17.8</td>
<td>17.8</td>
<td>17.8</td>
<td>17.8</td>
<td>17.8</td>
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<td>17.8</td>
</tr>
</tbody>
</table>

Source: Albanian authorities, and Fund staff estimates and projections.

1/ All adjustors are described in the Technical Memorandum of Understanding (TMU).
2/ Data revisions have led to minor adjustments of the outturn for the cash deficit and government expenditure in April and August 2015, and for BoA credit to government in June 2014, April 2015, and August 2015.
3/ Excluding arrears payments under the APCS. The assessment of performance in 2014 also excluded new energy and nonenergy guarantees, which were not part of the original PC but are now included in the fiscal framework.
4/ Indicative target through December 2014.
5/ General government for March 2014.
Table 2. Albania: Prior Actions for Completing the Seventh Review under the Extended Arrangement

<table>
<thead>
<tr>
<th>Prior Actions</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Public Financial Management</strong></td>
<td></td>
</tr>
</tbody>
</table>
Table 3a. Albania: Structural Benchmarks for the Seventh Review under the Extended Arrangement

<table>
<thead>
<tr>
<th>Structural Benchmarks</th>
<th>Test Date</th>
<th>Status</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Public Financial Management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Publish a triannual report on new arrears accumulation in ten key ministries and the GDT on MoF’s website.</td>
<td>Continuous</td>
<td>Met.</td>
<td></td>
</tr>
<tr>
<td><strong>II. Tax Policy and Administration</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>III. Electricity Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Prepare a quarterly survey of the gross consolidated arrears of the electricity sector (KESH, OST, OSHEE) to the private sector.</td>
<td>Continuous</td>
<td>Met.</td>
<td></td>
</tr>
<tr>
<td>6. Publish quarterly financial statements for KESh and OSheE.</td>
<td>Continuous</td>
<td>Met.</td>
<td></td>
</tr>
</tbody>
</table>
### Table 3b. Albania: Structural Benchmarks for the Remainder of 2016 under the Extended Arrangement

<table>
<thead>
<tr>
<th>Structural Benchmarks</th>
<th>Test Date</th>
<th>Status</th>
<th>Remarks</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I. Public Financial Management</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Publish a triannual report on new arrears accumulation in fourteen key ministries</td>
<td>Continuous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Publish a quarterly survey of local government arrears on MoF’s website, starting</td>
<td>Continuous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Roll out the AGFIS to 15 budget institutions.</td>
<td>End-May 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Fully staff the fiscal risks unit at MoF.</td>
<td>End-June 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Formulate comprehensive action plans to deal with local government arrears.</td>
<td>End-Sep. 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>II. Tax Policy and Administration</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. List and quantify tax expenditures in the annual budget documentation submitted to</td>
<td>Continuous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Restructure GDT’s Large Taxpayer Office with specialization according to business</td>
<td>End-June 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>III. Financial Sector</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>11. Submit to Parliament a new Bankruptcy Law, incorporating best international</td>
<td>End-June 2016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>13. Prepare a quarterly survey of the gross consolidated arrears of the electricity</td>
<td>Continuous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>14. Publish quarterly financial statements for KESh, OST, and OShEE.</td>
<td>Continuous</td>
<td></td>
<td></td>
</tr>
<tr>
<td>15. Remove 35kV medium-voltage consumers from the regulated tariff system.</td>
<td>End-July 2016</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the indicators used to monitor the program, and reflects the understandings between the Albanian authorities and the IMF. The TMU also defines the associated reporting requirements.

2. The exchange rates for the purposes of the program are set at lek 140.25 = €1, lek 103.17 = $1, and lek 158.05 = SDR 1. The gold price is set at €920.18 = 1 oz. These were the rates shown on the Bank of Albania’s website as of November 30, 2013.

3. For the purpose of the program, the central government includes extra-budgetary funds. The general government includes the central government, local governments, the Social Security Institute (SSI), and the Health Insurance Institute (HII).

4. The fiscal year starts on January 1 and ends on December 31.

Quantitative Performance Criteria

A. Floor on Net International Reserves of the BoA

Definition

5. Net international reserves (NIR) are defined as reserve assets minus reserve liabilities of the Bank of Albania (BoA). Reserve assets are readily available claims of the BoA on nonresidents denominated in foreign convertible currencies, and held for the purpose of meeting balance of payments financing needs, intervening in exchange markets, and other purposes. They include BoA holdings of monetary gold, SDRs, Albania’s reserve position with the IMF, foreign currency cash, securities, and deposits abroad. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in nonconvertible currencies; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options).

6. Reserve liabilities are defined as foreign exchange liabilities to residents and nonresidents of the BoA, irrespective of their maturity. They include: foreign currency reserves of commercial banks held at the BoA; foreign currency deposits of the government held at the BoA; all credit outstanding from the IMF that is a liability of the BoA; commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options); and all arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies. Reserve assets and reserve liabilities will both be expressed in euros, at the program exchange rate.
Reporting

7. Data will be provided by the BoA to the Fund with a lag of no more than 45 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 15 days after the test date.

B. Cumulative Floor on General Government Primary Modified Cash Balance

Definition

8. The primary modified cash balance of the general government will be measured from the financing side (below the line) at current exchange rates, based on the template below:

<table>
<thead>
<tr>
<th>PRIMARY MODIFIED CASH BALANCE = (A) + (B) + (C)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Interest payments (A)</strong></td>
</tr>
<tr>
<td><strong>Domestic financing (B)</strong></td>
</tr>
<tr>
<td>Privatization receipts (gross)</td>
</tr>
<tr>
<td>Domestic net borrowing (using residency criterion)</td>
</tr>
<tr>
<td>Central government net direct debt</td>
</tr>
<tr>
<td>Central government guarantees (drawings minus repayments)</td>
</tr>
<tr>
<td>Local government net direct debt</td>
</tr>
<tr>
<td><strong>Other</strong></td>
</tr>
<tr>
<td>Change in the balance of government accounts at BoA</td>
</tr>
<tr>
<td>TSA bank account</td>
</tr>
<tr>
<td>SSI &amp; HII’s bank accounts</td>
</tr>
<tr>
<td>Trust accounts</td>
</tr>
<tr>
<td>On-loan principal</td>
</tr>
<tr>
<td>Change in the balance of government accounts outside BoA</td>
</tr>
<tr>
<td>Reconstruction Fund</td>
</tr>
<tr>
<td>Other government accounts outside TSA (in commercial banks)</td>
</tr>
<tr>
<td>Transitory accounts – guarantees on custom duties</td>
</tr>
<tr>
<td>Cash in transit</td>
</tr>
<tr>
<td>Accounting items</td>
</tr>
<tr>
<td>Variance accrual-cash</td>
</tr>
<tr>
<td>Float</td>
</tr>
<tr>
<td>Liability to SSI (receipts minus payments)</td>
</tr>
<tr>
<td>Others</td>
</tr>
<tr>
<td><strong>Foreign financing (C)</strong></td>
</tr>
<tr>
<td>Drawings</td>
</tr>
<tr>
<td>Long-term loans (all direct debt drawings included in Albania’s official debt statistics, including loans for the energy sector, even if on-lent)</td>
</tr>
<tr>
<td>Budget support loans (drawings)</td>
</tr>
<tr>
<td>Guarantees (drawings)</td>
</tr>
<tr>
<td>Change of statistical account</td>
</tr>
<tr>
<td>Repayments (of direct and guaranteed debt)</td>
</tr>
</tbody>
</table>
9. In determining the primary modified cash balance, the following considerations will apply:

- Domestic borrowing is reported on a net basis and using the residency criterion. It covers bank loans, securities issued, overdraft accounts, and other debt instruments, less government deposits.

- Principal repayments include only principal paid by the government and not that by the actual borrower. In case a borrower repays the Ministry of Finance (MoF) at a later point in time, principal is recorded under “on-loan principal.”

- Foreign borrowing is reported on a gross basis and using the residency criterion. It covers disbursements by international financial institutions, bank loans, securities issued, overdraft accounts, and other debt instruments.

- “Change of statistical account” covers funds disbursed but not yet withdrawn and held by nonresidents in financial institutions for project-related spending.

- “Repayments” refers to all payments to nonresidents related to disbursements or guarantees by international financial institutions, bank loans, securities, overdraft accounts, and other debt instruments.

10. The primary modified cash balance will also include all new issuances of general government guarantees (excluding rollover) for the energy and non-energy sectors, as well as net policy lending.

11. Excluded from the calculation of the primary modified cash balance of the general government are any preliminary payments made to the Albanian Government by Bankers Petroleum Ltd. in the context of the December 2015 agreement between the two sides regarding a $57 million tax dispute. These payments will only be considered as revenue, in whole or in part, upon the conclusion of the dispute resolution process and the domestic legal process.

12. Included in the calculation of the primary modified cash balance of the general government are the outstanding amounts on letters of credit and local governments’ savings and carryover.

**Reporting**

13. Data will be provided to the Fund, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

**Adjustors**

14. The floor on the primary modified cash balance of the general government will be adjusted upward (downward):

1 Cash balance data come from the Treasury, the Debt Office, and the BoA.
• the shortfall (excess) of new energy guarantees, excluding rollover, issued during the course of the year, up to a maximum of the annual budgeted allocation. The adjustor will not apply to December targets. Energy guarantees are defined as guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE.

15. The floor on the primary modified cash balance of the general government will be adjusted downward by:

• 50 percent of privatization receipts, up to total privatization receipts of lek 15 billion in a given year.

C. Cumulative Ceiling on General Government Primary Expenditure

Definition

16. General government primary expenditure covers spending on personnel, operations and maintenance, subsidies, social insurance outlays, local government expenditures, other current expenditures (social protection transfers), capital expenditure, reserve and contingency funds, and net lending, as reported in the government’s monthly budget outturns. It is measured on a cash basis and excludes interest payments.

17. Included in the calculation of general government primary expenditure are the outstanding amounts on letters of credit and local governments’ savings and carryover.

Reporting

18. Data will be provided to the Fund, using current exchange rates, with a lag of no more than 60 days after the test date for December test dates. For all other test dates, data should be provided with a lag of no more than 30 days after the test date.

Adjustors

19. The ceiling on primary expenditure of the general government will be adjusted upward (downward) by:

• the excess (shortfall) of new energy guarantees, excluding rollover, issued during the course of the year, up to a maximum of the annual budgeted allocation. The adjustor will not apply to December targets. Energy guarantees are defined as guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE.
20. The ceiling on primary expenditure of the general government will be adjusted upward by:

- 50 percent of privatization receipts, up to total privatization receipts of lek 15 billion in a given year.

- the excess of total non-grant revenues (both tax and non-tax) over programmed amounts, up to a maximum of lek 4 billion in 2016. Excluded from the calculation of total non-grant revenues are any preliminary payments made to the Albanian Government by Bankers Petroleum Ltd. in the context of the December 2015 agreement between the two sides regarding a $57 million tax dispute. These payments will only be considered as revenue, in whole or in part, upon the conclusion of the dispute resolution process and the domestic legal process.

- the excess of project grants over the programmed amount.

D. Cumulative Ceiling on the Increase of Bank of Albania Credit to the General Government

Definition

21. Credit of the central bank to the general government is defined as outstanding claims of the BoA on the general government, including overdrafts, direct credit, and holdings of government securities (excluding repo operations), advance distribution of profits, and other technical receivables. For the purpose of this target, government securities will be valued at their original purchase price. The stock of central bank credit to the government amounted to lek 63.965 billion at the end of December 2013. The cumulative ceiling will be computed relative to that amount.

Reporting

22. Data will be provided by the BoA to the Fund on a monthly basis with a lag of no more than fifteen days.

Continuous Performance Criteria

E. Accumulation of New External Payment Arrears by the General Government

Definition

23. External debt is determined according to the residency criterion. The term “debt”\(^2\) will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time. These payments will discharge the principal and/or interest

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\(^2\) As defined in point 8 of the Guidelines on Public Debt Conditionality in Fund Arrangements, adopted by Decision No. 15688.
liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows:

- loans, defined as advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

- suppliers’ credits, defined as contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

- leases, defined as arrangements under which property is provided which the lessee has the right to use for one or more specified periods of time that are usually shorter than the total expected service life of the property. For the purpose of the program, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

24. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

25. Under the definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after the due date and grace period, as specified in the contract, has passed. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

26. The external arrears of the general government will be calculated based on the schedule of external payments obligations reported by the MoF. Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

27. This performance criterion does not cover arrears on trade credits and will apply on a continuous basis.
Reporting
28. The MoF will provide the final data on the external arrears of the general government to the Fund, with a lag of no more than two weeks after the end of each month.

Inflation Consultation
29. The triannual consultation bands apply to the 12-month rate of inflation in consumer prices as measured by the headline consumer price index (CPI) published by the INSTAT. Should the observed year-on-year rate of CPI inflation (4-month average) fall outside the outer bands, the authorities will complete a consultation with the IMF on their proposed policy response before requesting further purchases under the program. In addition, the BoA will conduct discussions with IMF staff should the observed year-on-year rate of CPI inflation (4-month average) fall outside the inner bands specified for each trimester.

Indicative Targets

F. Ceiling on Subsidies to the Energy Sector
Definition
30. Subsidies to the energy sector are defined as new guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE, excluding rollover.

Reporting
31. Data will be provided to the Fund by the MoF on a monthly basis with a lag of no more than thirty days.

G. Ceiling on Average Distribution Losses by OSHEE
Definition
32. Average distribution losses are defined as the difference between total electricity entering the distribution system and the amount of electricity billed to consumers by OSHEE, the energy distribution company, as a share of the total amount of electricity entering the distribution system. These are measured on a cumulative basis for each calendar year.

Reporting
33. Data will be provided to the Fund by the Ministry of Energy on a monthly basis with a lag of no more than thirty days.
H. Ceiling on Accumulation of Central Government Domestic Arrears

Definition

34. Central government domestic arrears consist of domestic expenditure arrears of the central government and domestic tax refund arrears. Domestic expenditure arrears are defined as payments to residents determined by contractual agreements that remain unpaid 30 days after the due date specified by the contract, or, in the absence of a contractual definition, as determined by law.

35. Domestic tax refund arrears are defined as obligations on any valid tax refund claims, in accordance with tax legislation, that remain unpaid 60 days after the claim is submitted.

36. For the purpose of this target, the accumulation of domestic arrears will be monitored through MoF’s triannual survey on arrears accumulation (see paragraph 38 below). The recording of invoices and tax refund claims should be cumulative, that is, the recording in each trimester should include all invoices/refund claims that have not been paid from the previous trimesters, starting from the beginning of 2014. MoF should verify that the invoices/refund claims reported in the survey are not already included in the arrears clearance database under the Arrears Prevention and Clearance Strategy (APCS).

Reporting

37. MoF should send to the Fund the consolidated data from the survey with a lag of no more than 75 days after each trimester.

Structural Benchmarks

38. MoF to publish a triannual survey on new arrears accumulation in fourteen key ministries, the Regional Development Fund, and GDT. The ministries covered are Transportation, Health, Education, Defense, Justice, Interior, Agriculture, Finance, Economy, Social Welfare, Urban Development, Culture, Environment, European Integration. The survey should be published within 75 days from the end of each trimester.

39. Publish a quarterly survey of local government arrears on MoF’s website, starting with end-March 2016. The survey should be published within 90 days from the end of each quarter.


41. Fully staff the fiscal risks unit at MoF. This benchmark is met when the unit is staffed with one director and 3 staff.

42. Formulate comprehensive action plans to deal with local government arrears. This benchmark is met when the 61 local government units submit their action plans to MoF, and MoF shares them with Fund staff.
43. List and quantify tax expenditures in the annual budget documentation submitted to Parliament. The survey of tax expenditures should be submitted to Parliament by end-November of each year.

44. Restructure GDT’s Large Taxpayer Office with specialization according to business sectors. This benchmark is met when a chart of the current organization of the LTO shows that it is organized according to business sectors.

45. Commence phasing in a modern compliance risk management approach at GDT, starting with two major risk clusters. This benchmark is met when: (1) strategies have been adopted for the mitigation of two major identified compliance risk clusters; (2) operational plans reflecting the strategies are in place; and (3) substantial operational implementation activities have commenced.

46. Design a valuation formula and methodology, and draft the legislation for a valuation-based property tax. This benchmark is met when the three documents are shared with Fund staff.

47. Prepare a quarterly survey of the gross consolidated arrears of the electricity sector to the private sector. The survey should be prepared within 15 days from the end of each quarter.

48. Publish quarterly financial statements for KESh, OST, and OShEE. The statements will be published within 30 days from the end of March, June, and September, and within 120 days from the end of December.

**Monitoring and Reporting Requirements**

49. To facilitate the monitoring of program performance, the authorities will provide the following information on a monthly basis (except where noted).

The Bank of Albania will supply to the Fund:
- i) the balance sheets of the BoA;
- ii) the separate consolidated accounts of commercial banks and Savings and Loan Institutions;
- iii) the monetary survey;
- iv) banking sector prudential indicators;
- v) the net foreign assets of the BoA and their components;
- vi) comprehensive information on reserve assets that are pledged, collateralized, or otherwise encumbered;
- vii) the foreign exchange cash flow of the BoA, including the level of NIR;
- viii) daily data on average exchange rates, FX interventions, and FX swaps;
- ix) quarterly balance of payments data and updates of balance of payments estimates;
- x) quarterly inflation forecasts;
- xi) data on government deposits and net domestic financing; and
- xii) quarterly data on the stock of foreign currency credit to unhedged borrowers, by bank and economic activity.

The Ministry of Finance will supply to the Fund:
(i) the monthly fiscal tables, including the overall budget deficit, on a modified cash basis;
(ii) issuance of treasury bills and bonds by the MoF, including gross value and cash received;
(iii) privatization receipts;
(iv) information on the contracting, disbursement, and amortization of public debt;
(v) detailed information on interest expenses for domestic and external debt;
(vi) information on the stock of short-, medium-, and long-term debt;
(vii) information on official grants for projects or budget support purposes;
(viii) information on the stock of expenditure arrears identified in the APCS, and progress in arrears repayment;
(ix) information on energy and non-energy guarantees issued by the general government, including on new issuance, drawings, repayments (called and non-called), interest (called and non-called), late returned principal and interest, separately for domestic versus external as well as energy versus non-energy guarantees; and
(x) data on local government spending, by type of expenditure.

The General Directorate of Customs will supply to the Fund:
(i) detailed data on customs revenues collected.

The General Directorate of Taxation will supply to the Fund:
(i) detailed data on tax revenues collected;
(ii) information on progress in implementing business restructuring and IT reforms;
(iii) data on the stock of VAT refunds claimed, refund arrears, and refunds paid out; and
(iv) quarterly performance metrics, including rate of on-time filing (per major tax type), stock of tax arrears (per major tax type), percentage of refund claims processed on time, number and total value of approved-but-not-yet-paid refund claims, number and total value of in-process-but-not-yet-approved refund claims, share of VAT refunds released without audit, additional tax assessed through audits (all types of audits), and additional tax paid that relates to audit assessments.
The Albanian Statistical Agency (INSTAT) will supply to the Fund:

(i) the consumer price index (CPI) at the aggregate level and for each individual item;
(ii) the producer price index;
(iii) the construction cost index;
(iv) all short term indicators as they become available, as defined in INSTAT’s quarterly publication “Conjuncture”; and
(v) preliminary estimates for quarterly GDP and preliminary estimates for annual GDP disaggregated by 35 sectors and distinguishing between the observed and unobserved economy.