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**Statement by the Hon. ANASTAS ANGJELI,
Governor of the Bank for ALBANIA,
at the Joint Annual Discussion**



REPUBLIC OF ALBANIA
Ministry of Finance

IMF and World Bank annual meeting

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Statement for publication and release to the Public.

The speech of Mr Angjeli, Minister of Finance

Honorable Mr. and Mrs.

Taking advantage of the opportunity of the annual meeting of the Governors Board of both Financial Institutions IMF and World Bank, the valuable contribution of these institutions in the development of the global economy, especially to the developing countries and the countries in transition, I would like to inform you at the very beginning that the Albanian Government is fully committed in the implementation of programmed policies to achieve a sustained macroeconomic stability and to implement a wide structural reform. All of this will help us to achieve a rapid economic growth, for the reduction of the poverty to improve the overall living standards and to narrow the gap of the economic and social development compared with the other countries in the region.

1. The achievement of these objectives will require a long period. During this period the attention of the government has been focused on the strict implementation of the programmed measures, in the realization of these goals which are expressed in the form of commitments in the Economic and Financial Policy Memorandum of the Government based on IMF Agreement. Although we are preparing for the Local Elections, we do highly evaluate this policy as successful one.

2. The wide objectives towards Poverty Reduction, are undertaken after a successful performance in the reestablishment of the macroeconomic stability and restoring the high and stable economic growth during the two last years (1998 – 1999). This period which is preceded by the restoration of order and security in the country. This period is characterized from the fiscal consolidation as result of the deepening fiscal policies of a wider structural reform and institutional reform intensification.

3. One of the challenges already faced during this period are the systematic and stable growth of the financial resources of the Government, mainly through the increase of tax revenues after a period of continuous decline. The adopted measures in the end of 1997 and during 1998, after the crises relief, made possible to insure a considerable increase of the tax revenues and the total budgetary incomes, enabling an increase of the budgetary expenditures, alongside the controlled increase of the international debt of the government. It is to be evaluated that the increased level of tax revenue collection during 1999 was realized under the Kosovo crises, despite its effects in the Albanian economy. Meanwhile was being implemented a contemporary fiscal package for tax and customs revenues administration.

4. Economic growth is estimated to be in the level of the program (7%). Despite the impossibility to make a direct evaluation of GDP, the main economic sector development indicators, do indicate for a general growth in the forecasted program. Although we have low level of crediting economy which are far from the prescribed limit, other factors are key factors to the economic progress, such as the increase of the aggregate demand, investments volume, the banking infrastructure enlargements with new private banks, the recent improvement in the economic legislation and the business climate.

5. Inflation for the 8 month period is under the level of the program objectives, thus preceding a lower annual level as it was forecasted by the program. At the end of August, the consumer index prices (CPI) compared to one-year before were minus 1 percent. Under these circumstances considering an increase in the inflation for the last months, it is estimated that at the end of the year the CPI will reach 2 to 3 percent.

6. The evolution of balance of payments is considerable, although the foreign trade balance demonstrates a higher deficit as result of the increase of the imports, compared to the lower export level. The deficit of the current account which is under one cipher level with the tendency for decrease along the recent years is expected to reach the program forecasted level, as it will happen with the foreign

currency reserves. The Albanian currency Lek is presented close to the program, despite a slightly depreciated level relative to USD.

7. During the last three years, the decrease of the financed deficit from the inflationary resources has been one of the main factors to achieve a sustained the macroeconomic stability. The 2000 macroeconomic performance indicates for a better performance relative to the program. The level of the domestic credit to the government, which is one of the quantitative performance criteria and indicative target of the program, at the end of September is estimated to be 5 percent lower than the program. However, it is expected that the situation will change during the coming period and at the end of the 2000 will be reached the programmed level at about 4,4 percent of GDP (24 billion leke). This is because of the great efforts that are being done to reach an increased level of the tax revenues, when at the same time we have had a good performance in respect to the expenditures level by reflecting the positive experience of the last years.

8. We are strengthening the fiscal administration in order to improve the tax and customs revenues collection. We are implemented all the measures for the improvements of the legal framework and the well-functioning of both administrations according to the specific programs in support of the economic program of the Government, as well as in the accomplishment of anticorruption program.

9. A key element in the Government Program is the structural and institutional reform. Actually we are successfully implementing the program related to strategic sectors privatization and reinforcement of the public institutions. This ambitious program which is reformulated two years before with the assistance of WB, is being implemented with required transparency.

10. The privatization of some strategic companies does reflect the increasing interests of foreign investors. This is also due to the improvements in security and order issues. The successful AMC Company privatization as regards to the strict implementing procedures and the buyer qualities is to be considered as the greatest success in this field. This has also led to an increase of Government budget. Alongside this positive experience it is to be mentioned the signing of contract for the ICB privatization, which is followed by the privatization procedures of some medium-sized companies.

11. The Public Administration Program Reform is another Government key program element. In this direction for the first time is established a contemporary legal framework, followed by concrete steps for their implementation.

12. Actually we are in the budgetary preparation process for the year 2001. Reflecting positive experience gained over the years regarding the implementation of new organic budgetary law, the work is undertaken in this respect. This law is better than the last year, because it includes the orientation to link the annual budget with MTEF Program. Thus a great attention will be paid to the governmental program for the poverty reduction and the priorities support towards health, education and infrastructure sectors.

13. Albania is distinguished for the progress in its Poverty Reduction Strategy. A preliminary document related to this program has been forwarded to the joint Board of IMF and WB. Based on this document is being prepared the final Poverty Reduction Document in Albania. In this document preparation a high attention will be devoted to the intensive participation of local institutions and private sectors. This will be followed by the discussions of priority sectors that are effected by this strategy.

In this context, Albanian Government considers the strategy of poverty reduction as a very important strategy with great profit for the whole country. At the same time this strategy shall be an instrument for the presentation of the general development strategy of Albania and to the priorities of international community policies, especially of the donors.

14. Up to the end of September is evaluated to have been implemented all the criteria set forth in the ESAF agreement with IMF. At the same time is being implemented other criteria whose deadline expires till the end of the year. Structural measures are being implemented according to the related graphics that are part of the Memorandum for the Government Economic Policies dating May.

Macro-economic developments and the perspectives.

The ongoing economic development of Albania during 2000 continues to be in conformity with the macroeconomic forecasts of the beginning of this year and on the other side with the joint estimations with the IMF mission during the jointly held discussion in July. In general it is seen a balance as to the economic development especially in the aggregate components demand.

It is expected that the economic growth level of 7 % per 2000 shall remain unchanged as result of arrangements in the structural internal demand for some sectors of economy that is actually based in the actual level of economic development.

The inflation results under the planned limits (at the end of August resulted minus 4,1 percent compared to the December 1999) and till the end of the year is evaluated to reach the level of 3 % taking into account that it will be an increase in the late quarter of this year.

The nominal exchange rate had undergone some oscillation in the international foreign currency market, while, the Albanian currency Lek is strengthened towards EURO at 5.03 % and is lowered compared to the American Dollar at 6.11 %. This depreciation of Albanian currency is welcomed since it reflects the export increase of goods and services.

	1997	1998	1999	2000
GDP –annual growth % -	(7.00)	8.00	7.26	7.00
-Industry	(5.60)	4.10	6.40	5.00
-Agriculture	1.00	5.00	3.65	3.40
-Construction	6.30	21.00	15.00	17.00
-Transport	(20.50)	20.00	15.00	15.00
-Service	(25.00)	10.00	12.00	10.00
CPI – annual average change-	42.0	8.7	- 1.0	3.0
Exchange rate Leke/\$ (Annual average)	148.9	150.6	137.7	143.0

Overview of budgetary situation

I. Development on the 2000 budget

a. Budget situation at the end of September.

Based on the data concerning the fiscal governmental operations it is evaluated that end-September budgetary situation is within our prediction. In this process is seen the positive tendency to accumulate budgetary revenues especially from the taxes, which figure about 100 to 101 percent of the plan, compared to the same level of 1999 it is 30 percent higher.

With the accumulated tax and customs revenues at the end of September is reached the required target (60 billion Leks). This amount goes along with what has been agreed with IMF mission, being officially included in the Financial and Economic Memorandum of the Government. As regards to the custom revenue collection the target is not reached as it was foreseen. This gap from custom revenues was compensated with the extra amount collected from the tax administration.

The deficit created in custom administration is directly linked with import volume, exchange rate, medium custom tariffs. This results under the program level. Evaluating the degree of custom revenue collection of this year and more over concentrating on the objective and subjective reasons, are to be mentioned some important factors which make us conclude that the annual program will be realized at 97%.

The accumulated expenditure of the budget at the end of September (about 115 billion Lek) compare with the level of the expenditures in the end of the year will reach the planned required level (over 95 %). This is supported in the updated tendency being consolidated for the absorb upgrading of the funds and the rhythmic implementations of the expenditures.

The level of deficit at the end of 9-month period is under the forecasted level preceding the full realization of the targets. In these conditions it is evaluated that at the end of September we shall be a bit under the expected target (18 billion Lek). Although we do not have the final account, the expectations are very optimistic as they were during the discussion with IMF on July.

b. Recent changes in the 2000 Budget Law.

Budgetary developments during the eight months and our evaluations for the ongoing period have induced us to review the 2000 budgetary Law, thus increasing the expenditures level at about 4 billion Lek (or 0.8 % of GDP). At the same time we maintain key parameters for the deficit which is financed by bank resources and for the inflation according to the program. Other important factors increased the possibility for financing the various sectors of the economy for the year 2000, such as especially the realizations in the privatization in the state owned enterprises and the foreign assistance for the budget.

With these changes in to the budget, we aim at fulfilling several goals and obligations of the Government:

1. Insure the total mobilizing of additional resources that are realized by:
 - a. Support of the budget over the annual programmed level;
 - b. The total of revenues came from the privatization which are expected to overcome the annual plan;
 - c. An increase of budgetary non tax revenues from the public companies ;
2. To include in the Budgetary State Law the use of supplemental resources to finance the public expenditures thus assuring the full macroeconomic stabilization and the compliance with the main parameters according to the IMF agreement.
3. To include in the Budgetary State Law the increasing of the expenditures level in accordance with the Government priorities, for some sectors such as infrastructure, education, electric power system etc.
4. Support with budgetary funds the initiated projects in the frame of Kosovo crises, which should go along with the respective financing.
5. To create new environments for sector budgetary policies for the year 2001, from the decrease of debt service through the lowering of the internal stock debt during 2000.

c. Estimation for the end of 2000.

Positively evaluating the facts, the government since the beginning of September found the instrument for the increase of budget expenditures, within the general frame of the program. This will be implemented without letting aside the internal debt and without putting at risk the actual level of inflation, it is expected to reach the required level of budget and the annual financing program.

The level of the expenditures at the end of the year is expected to be quite near the programmed requisites. In this frame it is to be mention the ongoing control of the expenditures in order not to allow the misuse of the funds at the end of the year as it was seen in the end of the previous year. If till the end of the year will remain 3 to 5 percent of the allocated fund unused, this will mainly be due to the reserves as result of the well management of the funds through the planning.

II. Implementation of the measures regarding to the tax and customs administration.

The achievements in the collection of tax and custom revenues express the importance of the programmed measures package, which are to be undertaken as to the relevant administration and their efficiency in their job performance.

In the customs administration:

The measures undertaken according to the evaluation of customs issues in the frame of the legislation customs implementation (the preparation of the instructions for the customs evaluations, methodology and the general rules in the Customs Code Implementation) and especially the public information in order to reach the needed cooperation, the measures to upgrading of profession level of the customs officers as well as the program for the continuation of the job in this field as a important priority in full conformity with the principles of the agreements for participating in OBT.

A systematic work is being done as to the adoption of the references, in order to deviate evasion through the false bills as well as a range of measures to practice a system of incentive (encouraging) rewards in the custom system such as special bonus or rewards from the revenues from sanction.

The internal control unit is systematically working on preparing two-week report for the observation from the auditing and respective measures. We are implementing a full program for the auditing of the firms that profit special custom regime.

In the tax administration:

We consider that the main priorities among several undertaken steps in the frame of the program for decreasing fiscal evasion and the war against underground economy are:

The control of using fiscal receipt, aim to reflect from this receipt the trade transactions done by the taxpayers.

The full procession of data and information taken from Customs concerning subject' imports, data taken from treasury's branches according tax-payers operating with budget funds and using any other possible information.

Improving of the exchange information scheme and other data according with tax-payers selling, especially of the biggest taxpayers in order to increase the control efficiency of the biggest taxpayers' selling, and to verify their activity.

Strengthening the control and the identification of the taxpayers not registered, which make a clear fiscal evasion. The implementation of the legal restrictive measures for the elimination of these activities.

III. The projection for the budget of 2001

a) The budget of 2001 and the Medium Term Expenditure Framework (MTEF)

The MTEF document for the 2001-2003 budget is completed. Five ministries of the same line have prepared expenditure sector strategies and the Ministry of Finance (MoF) has prepared the macro-fiscal framework, resources framework and the expenditure framework. The MTEF document that is discussed in the Economic Policy Committee and approved from the Council of Ministers, is the main orientation for the introducing of the demands from the above mention Ministries and the base for the evaluation of their proposals in the compilation process of the state budget for 2001. As Poverty Reduction Strategy Program PRSP needs and as the MTEF documentation has programmed, in the compilation of state budget of 2001 are considered as priority sector: the health sector, education and infrastructure sector.

Basing on the main orientation for the budget compilation, as a part of the instruction, except procedural items are included and the orientation quotas for the production, inflation, fiscal revenues, expenditures in the base of middle term objectives which are mentioned in this document. Meanwhile we are in the phase of the compilation of the base information for the budget demands of the institutions, we have prepared a preliminary version for the expenditure and revenues level, its deficit and financing, considering the latest developments for the project adjustments included in MTEF.

Compared with the expected levels in the document of MTEF, this project include some improvements:

Firstly, projecting quite in the same level of the general expenditures as the percent of GDP, we forecast an increasing of general expenditures without interest. In this period, the first priority is given to the increasing of the Capital Expenditures. This improvement is supported by 2 factors: (a) From the decreasing of the internal stock at the end of 2000 compared to the forecasted period as a result of using of supplementary revenues from the privatization of the year 2000 and, (b) From the forecasting of a lower interest rates of the government borrowing and respectively in the decreasing of the service cost of the old debt.

Secondly, reaming quite in the same level of general budget deficit, is forecasted a lower level of borrowing from banking sector compare with the forecasting of the middle term program, which is based in the reevaluations for the privatization made during year 2000 and they that are expected to be finished during the next year.

b) 2001 Budget support measures

We are working for the fiscal package preparation according with fiscal revenues administration, and also for all tariff changes which are expected to have effects in the year 2000.

From the Customs Administration: we are preparing the changes which will made in the law for the Goods' List and in the Custom Code, reflecting the government commitments for the decreasing of the tariffs and the resolving of the subjects which are presented during 1 year period Support measures and a half of the implementation of the New Custom Code.

- a) For the reduction of the maximum custom barrier, from 18 to 15%, beginning from January 1, 2001
- b) For the reduction of the tariff for the import of machinery from 5% to 2%, or for all articles with 5%, or a combination of them.
- c) To some changes on tariffs in order to minimize the fiscal evasion on customs, throe the reduction on the tariff level or the unification of this tax for some samples which are considered as exposed to the evasion.

From the Fiscal Administration: we have begun and will finish together with the approval of the State Budget Law, as a support package, amendment or reviewing of several laws and legal acts; The law for VAT, aiming the encasing of the number included subjects; The Law for taxes aiming at the expanding taxes, etc.

Taking in account the legal improvements, the administration fiscal improvements and considering the base economic factors for the increasing of the fiscal revenues, the latest forecasting results is a bit under the expected level in the frame of the middle term program, mainly because of the elimination the solidarity tax, which are consider quite a zero effect for 2001, making equal the effects of the decreasing of rate with the decreasing of the evasion.

Related to the expenditure, in the frame of the WB project for the Public Administration Reform, the government has undertaken important steps in order to improve the management of public resources in the components as: formulation and implementation of the budget; macroeconomic and fiscal analysis and forecasting; the treasury and accounting, with a special focus on the transparency and responsibility.

In addition to the budget preparation based on the MTEF, are being taken measures to improve the implementation of the budget for the next year, including the introduction of the new budget classification according to the international standards.

The main fiscal indicators for 1997-2001

	<i>Percentage of GDP</i>				
	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>
Revenues	16.6	20.3	21.3	22.6	22.3
Expenditures	29.5	30.7	32.7	32.2	32.0
Total deficit	12.9	0.4	11.3	9.6	9.70
Banking Financing	10.8	6.0	5.50	3.7	3.6

Structural reform

The Government is fully committed to the reforms on financial sector through a combine agenda of privatization and the improvement in the institutional frame. The privatization program is quickly implemented with transparency reflecting the increase of the foreign investment interest in response to the improvement of order and security.

The successful privatization of AMC company both from the point of view of procedures and from the quality of the buyers, respectively to the created image and the profits of the state can be considered without reserves as the greatest success in this field. Following this positive experience we can mention the successful agreement for the privatization of the TCB and the procedure for the privatization of five middle companies (Beer, Durres canteen, Ajka, Profarma) that have finally ending the procedures up to the official publication of the Council of Ministers Decision for the authorization and signing of the contract.

We are working seriously and intensively for the preparatory steps according to the program for the other companies that will be privatized in the next year such as the Saving Bank and Albtelecom. After the choosing of the chief operating and accounting officers and the advisers for the privatization of the Saving Bank , all the necessary steps are undertaken for the ending of the recapitalization process of this Bank prior to its privatization.

A number of measures are undertaken to prepare the privatization of the biggest insurance company INSIG , such as planing of the restructuring strategy of this company , that is approved by the Council of Ministries, beginning of the preparatory legal act of the privatization such as the reform law and the privatization formula of this company, aiming at beginning of privatization process of this company at the beginning of 2001.

Among the important measures that the government is actually undertaking are those measures that are connected with the restructuring and improving of the management of the biggest company of the Electricity Albanian Power KESH, including the insurance of the management assistance from a powerful and reputation company. Actually the negotiation with the wining company are ongoing for the connection of the managing assistance contract and we are waiting that soon will be signed.

The program of the reform in the public administration is another key element in the program of the government. In this frame after the approving of the Law

“Status of the civil officials” at the end of the previous year are actually approved all the acts to implement this law. A number of concrete measures are undertaken in their implementation such as the publication from the Public Administration Department of the vacant places, the developing of the selection procedure of the candidate and the recruitment of the new civil officer. It is signing the special structure of the ministries and we are working to set up a training institution of the public administration.

Preparation of the Poverty Reduction Strategy

Albania is distinguished for the progress in its Poverty Reduction Strategy. A preliminary document related to this program has been forwarded to the joint Board of IMF and WB. Based on this document is being prepared the final Poverty Reduction Document in Albania. In this document preparation a high attention will be devoted to the intensive participation of local institutions and private sectors. This will be followed by the discussions of priority sectors that are effected by this strategy: health, education and agriculture.

In this context, Albanian Government considers the strategy of poverty reduction as a very important strategy with great profit for the whole country. At the same time this strategy shall be an instrument for the presentation of the general development strategy of Albania and to the priorities of international community policies, especially of the donors.

Progress is done in the implementation of the Working program for the PRS, while is functioning the steering committee and the working group. The government with the assistance of the WB has selected the Institute for Development Studies to address the analysis of the participatory process in Albania, as well as will realize the analysis of the power groups. Meanwhile, the government has begun the dialogue with the local donors, for the financial support of the program.