REPUBLIC OF ALBANIA

ECONOMIC REFORM PROGRAMME
2018-2020

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1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The path towards economic stability and fiscal consolidation, in accordance with the European integration goals and coupled with internal demand for sustainable growth, has shaped the economic model and the reforms undertaken by the Government of Albania. Albania has put many efforts toward creating a well-structured market economy capable of coping with competitive pressures and market forces once Albania joins the European Union.

The Economic Reform Programme for the medium-term 2018 - 2020 outlines the main macroeconomic and fiscal policies aiming to establish the clear balance between the internal strengths and external threats, with a view to enable sustainable growth, increased employment and reduced public debt. In addition, the ERP introduces the priority structural reforms planned by the GoA in the medium term future for increasing domestic production, stimulate new investments and ensure sustainable growth and increased competitiveness. The GoA's priorities are oriented toward fiscal consolidation and improved public expenditure management, reduction of infrastructure deficits, regulatory and institutional reform and improvement of social protection systems. The proposed reform measures have been designed to address binding constrains to growth and boosting competitiveness, while enabling Albania to compete and effectively participate in the regional and global value chains.

The economic policies of the last 4 years have generated growth, marking a recovery from 2014, although sustainable growth remains a target that we seek to reach. Generating solid employment, improving the standard of living of Albanians and an economy capable of integrating in the European value chains are at the core of the economic reforms. The economic outlook is expected to continue improving in the future medium-term as a result of the undertaken reforms. The GoA's expectations were confirmed during the Joint Financial and Economic Dialogue between the EU and the Western Balkans and Turkey in May 2017. Albania is experiencing a gradual growth that will continue in 2018-2020.

The economic growth rate of Albania has continued to accelerate during the cumulative nine-month period of 2017 and is expected to continue the gradual growth in 2018-2020. After the increase of 3.37% in 2016, the GDP grew 3.87% over the nine-month period of 2017 and is expected to accelerate growth in the economy by 4.2% in 2018, 4.3% in 2019 and 4.4% in 2020.

The fiscal policy for the period 2018-2020 is clearly oriented towards fiscal consolidation, while providing an optimum level of investment of about 5 percent of GDP on average. Fiscal consolidation and the reduction of public debt is essential for reducing macroeconomic risks, which hinder economic growth and cause macroeconomic instability. The fiscal consolidation aims that the debt to GDP ratio continues its downward trajectory which started back in 2016. Public debt is expected to fall at the level of 68.7 percent of GDP in 2018, 66.4 percent of GDP in 2019 and 63.5 percent in 2020.

At the same time, this economic program accommodates budget policies to support economic growth and to offset the shrinking effects of fiscal consolidation. Public investment in the short and medium term is projected to hold about 5 percent of GDP, which is considered as optimal to feed the aggregate demand in the short term and to shift potential economic growth to a higher level in the medium and long term.

The reform on energy and transport - diversification of connectivity ways for Albania and pulling closer together the economic corridors - are crucial for a sustainable economic growth, increasing competitiveness and supporting the reduction of transport and connectivity costs for Albanian products. Therefore, Albania has continued to deepen the reforms in these areas, which are rolled over from the previous ERP.

The structural reform priorities derive from the medium term budget and the national strategic documents, portraying the challenges of the Albanian economy while simultaneously offering to come up with a solution to constraints to growth. The planned reforms are in line with the National Strategy for Development and Integration (NSDI) 2015-2020, Sectorial

Strategies, Medium Term Budget Process (MTBP), the Budget Law for 2017, and other strategic documents such as SEE 2020, SBA, etc. The structural reform priorities have a balanced approach between the need to increase the skills in the market and to distribute the productivity contributors, so as to ensure a smooth integration of the economy into the regional and European markets. The proposed reform measures are a response to the EU's analyses and recommendations for Albania as well as other international reports (OECD Competitiveness Outlook, Doing Business Report, World Competitiveness Report etc.), which all make up a good basis for diagnostics and potential reforms.

The planned reform measures seek to address various the country-specific recommendations that came out of the Joint Conclusions of Financial and Economic Dialogue between the EU and the Western Balkans and Turkey in May 2017. Some of the reforms are rolled over from the previous ERP, supplemented with new reform priorities for the upcoming period. The ERP 2018-2020 presents 17 reform measures encompassing all the areas proposed in the EC's revised ERP Guidance Notes, covering investment and soft measures in infrastructure, sectorial reforms measure, etc.

Private sector development remains a priority and this ERP builds on the implementation of the reforms proposed in the ERP 2017-2019. The focus remains the reduction of the regulatory burden to business, improving access to finance through effective implementation of the National Plan to reduce the level of the NPL, improving the institutional capacity for research and innovation etc. Trade, as an integral part of the regional agenda and the Berlin Process, addresses the primary needs to facilitate trade at the national level – at the border and beyond – through the effective implementation of the national plan for trade facilitation 2017-2020, while adjusting the national needs and main priorities with the regional trade facilitation and connectivity agenda.

Improving the skills in the labour market and strengthening the social inclusions are presented in this ERP through reforms to improve the quality and coverage of VET while ensuring linkages with labour market, modernising public employment services and increase employment of women, youth and vulnerable people, strengthening social protection and social inclusion measures and drafting and implementing a competence based curricula and training of teachers. The proposed reform measures are rolled over from the previous ERP 2017-2019.

The preparation and drafting of the ERP 2018-2020 was made possible through the coordination at the national of the process across many government institutions and the Bank of Albania. The process was preceded by various events and workshops organized in cooperation with the European Commission and the OECD. Inter-institutional meetings were held with the technical coordinators to discuss the methodology, obstacles to growth and diagnostics per area, as well as methods on how to prioritize the reform measures. The Ministry of Finance and Economy has closely monitored the progress and implementation of the reforms from the previous ERP so as to facilitate the logical continuation of the reforms and to ensure sustainability in the reform priority agenda. In addition, the recommendations of the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey are also monitored and addressed in this ERP to show progress and ensure continuity.

The Economic Reform Programme 2018-2020 was disseminated for consultation to the various stakeholders (international organisations, diplomatic missions to Albania etc.) with the purpose to add their feedback, comments and contributions to the document. They can be found in Annex II.

Albania's Economic Reform Programme 2018-2020 was adopted by Decision of the Council of Ministers No. 50, dated 31.01.2017 "On the adoption of the Economic Reform Programme (ERP) 2018-2020".

The Government of Albania is determined to ensure effective implementation of the reforms in order to deepen and broaden economic recovery and growth, and most importantly to directly affect the lives of the people of Albania.

2. MACROECONOMIC FRAMEWORK

2.1. External Outlook

The pace of global growth is projected at 3.6 per cent in 2017, showing a pick up from 2016 (with an estimated growth of 3.2 per cent) while it is forecasted to strengthen again in 2018 with an increase of 3.7 per cent. Notable, the forecast for this growth, is 0.1 percentage point higher, than the initial forecast, considering the slowdown effects toward advanced economies that was caused by the departure in June of U.K. (when they voted in favor to leave the European Union). This recovery has been mainly supported by a pick-up in (i) investment; (ii) trade; (iii) higher business & consumer confidence. Nevertheless, even if the outline looks positive, several countries have experienced a slow pace of growth. Contrary to the euro area, many countries are still experiencing weak inflation, also facing a stem in GDP per capita due to (i) a slow productivity; (ii) and aging of the population (a problem that seems to be persisting over the years). Dealing with the financial sector will be the key challenge to the mid-future ahead. The Chinese authorities face the difficult challenge of keeping up with their policy of credit expansion, since their economic activity has experienced a relatively hard slowdown. The prospect of other countries is also uncertain; facing financial stability risks the central banks of advanced economies lack to trigger the needed stimulus against volatility. Although progress has been made in the European banking issues, problems still remain and the countries should strengthen their efforts in improving confidence and to eliminate the adverse relation between (i) low demand; (ii) and prices (in several countries of the euro area. The continuous low inflation (especially in advance countries), can lead to a (i) low mid-term inflation expectations; (ii) and interest rates; leaving no space for the central bank's to intervening in case of an economic downturn. As concerning non-economic risks in advance economies, its presence is still notable; especially conflicts and geopolitical tensions are those that play the most influence in the mid-future ahead. Also, the monetary policy will continue to be accommodative for as long as the inflation will converge toward the central bank's target.

On global scale, prices of industrial commodities continued to perform positively during the third quarter of 2017, while most agriculture prices remained quite stable. Meanwhile, the oil market, inventories still decreased amid strong demand (due to OPEC production restraint). Crude oil prices are expected to average $53 per barrel (bbl) in 2017 (up from $43/bbl in 2016) and rise to $56/bbl in 2018. Metals prices are expected to surge 22 percent in 2017 due to strong demand and supply constraints, notably Chinese environmentally - driven supply cuts.

As for the Balkan region, the GDP growth is expected to perform positively at 2.6 per cent in 2017. The countries that grew the most were those that were investment driven economies (like: Albania, Kosovo and Montenegro), while in Bosnia & Herzegovina economic activity was driven by consumption. Despite a high level of unemployment, around 230,000 jobs were created in the region in the 12 months through June 2017 (a 3.8 percent increase - half of which were in the private sector). The medium-term economic outlook for is projected to reach 3.6 per cent by 2019, mainly supported by (i) domestic demand; (ii) private consumption and (iii) investment. Exports are also expected increase as a direct connection with the positive performance in the Euro Area. Nevertheless, the economic activity is still vulnerable to policy uncertainty and policy reversals, which can slowdown the investment and growth levels.

In 2016, consumer price inflation in advanced economies was at 0.77 per cent, recovering from a lower value of 2015 (of 0.27 per cent). By the end of 2017 it is forecasted to reach 1.67 per cent, setting the path that the trajectory is reaching the desired level. Higher inflation of this year compared to last year (2016) has slowed down the purchasing power of households.

In the Euro Area, inflation has fluctuated during the nine months of 2017 (from 1.3 to 2 per cent) mainly increased by the effects of the energy sector. Only in November 2017, the inflation in the Euro Area marked 1.5 per cent, up from 1.4 per cent one month earlier. While in the EU the inflation for November 2017 was 1.8 per cent, up by 0.1 p.p. from the previous month. Meanwhile, for December 2017 the EUROSTAT estimates a positive level of 1.4% (down from 1.5% of November 2017). As for the exchange rates, showed a slightly depreciation of the EUR compared with the national currency of the emerging markets. A number of reasons can be attributed to political imbalances and military measures taken by EU countries which have been threatened by terrorist's acts. The Euro Area economy advanced 0.6 per cent (on quarterly basis) in the third quarter of 2017 compared with the previous quarter, while it grew by 2.6 per cent compared with the third quarter of 2016. Household final consumption had the main positive contribution toward GDP growth in the Euro Area (by +0.2 percentage points) as had gross fixed capital formation (by +0.2 p.p.). Meanwhile, the external balance contributed moderately toward the GDP growth. Exports had a positive performance and increased by 1.2 per cent and imports increasing almost at the same fast pace of 1.1 per cent during Q3 of 2017.

On the production side (in the Euro Area), industry grew by 1.3 per cent during Q3 of 2017 (on quarterly basis), supported also by manufacturing (by +1.5 per cent from 0.9 per cent in Q2 of the same year). Construction increased by 0.4 per cent in Q3 of 2017 slightly decreasing from 0.7 per cent in Q2 of the same year. Among services, during Q3 of 2017 output rose for: trade, transport, accommodation and food service activities (+0.6 per cent); administration and other public services (+0.4 per cent), real estate activities (+0.5 per cent); professional and support service activities (+0.7 per cent); and financial and insurance activities (+0.1 per cent from 0.5 per cent in Q2). By contrast, during Q3 of 2017 output fell for agriculture, forestry and fishing by -0.2 per cent, following a negative performance of -0.5 per cent in the second quarter of 2017, after showing a positive sign in Q1 2017 of 1.9 per cent growth (on quarterly basis).

As for the two main economic partners of Albania, for Italy and Greece the mid-term perspective looks brighter and toward a positive path. The Italian economy growth has had a positive nine months of 2017, were it was estimated to be on average around 0.4%, while only for the third quarter of 2017 it increased by 0.4 per cent (on quarterly basis) and it rose by 1.7 per cent (on annual terms). Forecasts show that GDP will grow by 1.1 in 2018 and by 0.9% in 2019.

After a slowdown of the real GDP by -0.5% in Q4 of 2016, Greece economic activity has gradually improved during the nine months of 2017, where in Q3 of this year the GDP rose by 0.3 per cent (on quarterly basis) and it rose by 1.3 per cent (on annual terms). This acceleration in 2017 was due to the strengthening of economic sentiment after the conclusion of the first review of the ESM programme, and stabilization of public finances. Unemployment is set to continue decreasing from very high levels. Assuming the relatively positive expectations for EU, particularly for the Italian and Greek economy, should materialize in the medium term ahead, we expect that to have a positive effect for the Albanian economy.

2.2. Recent economic developments

The growth path that has characterized the economic activity in Albania has continued to perform positively and accelerated during the first nine months of 2017. After growing at 3.37% in 2016 (on annual terms), real GDP increased by 3.87% during the first nine months of 2017, based on quarterly national accounts statistics of INSTAT, while growth for the third quarter 2017 alone was 3.55%.

From the aggregate demand perspective, growth during the first nine months of 2017 was generated by both domestic and foreign demand. Also on the domestic demand for the fourth quarter, we expect investments to have the largest contribution, while on the foreign demand, the much higher performance of exports of goods & services (compared to last year) will be a key generator of growth. Taking into account the performance for the first nine months of 2017 and expectations for the fourth quarter, economic activity in Albania seems in line with actual MFE's growth forecast of 3.9% for the whole 2017.

Total final consumption which compounds the highest weight in the economy increased by 2.92% during the first nine months (contributing by 1.49 p.p. in the respective GDP growth) and by 3.37% during the third quarter of 2017 (on annual terms), mainly supported by improved confidence in the economy as well as low interest rates (the economic sentiment indicator increased by 8.4 percentage points compared to the third quarter of 2016 and consumer confidence indicator increased by 1.3 percentage points during the third quarter of 2017 on annual terms). Final private consumption (of the households) increased by 2.56% during the first nine months of 2017 (contributing by 1.14 p.p.) and by 3.25% during the third quarter.

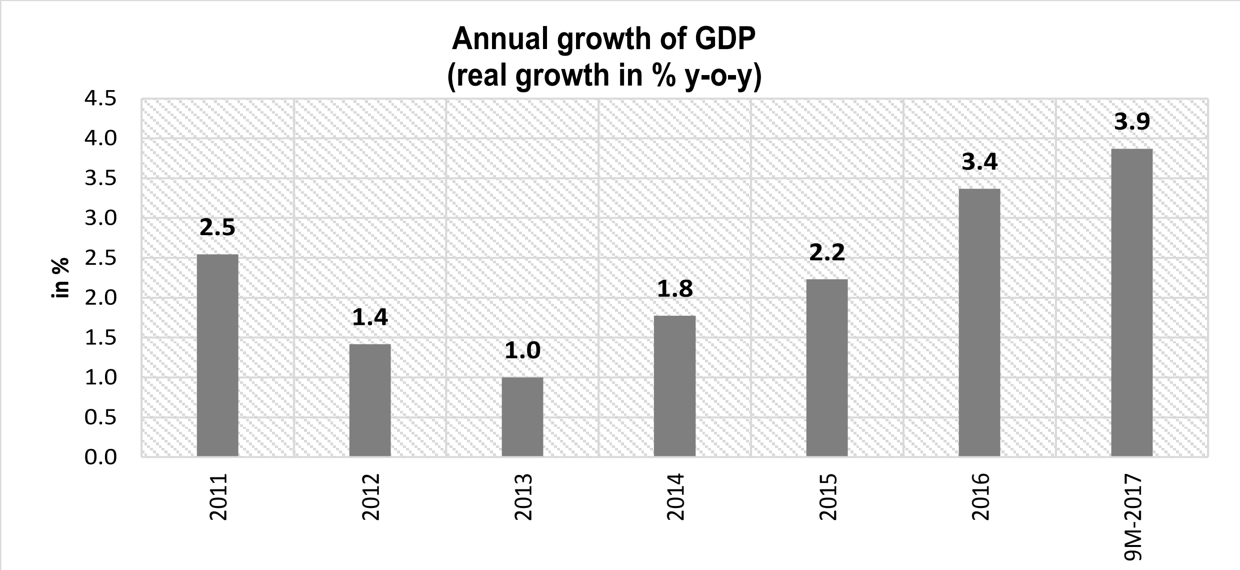
The "Gross Formation of Fixed Capital" (total investments) increased significantly by 9.7% during the first nine months of 2017 (on annual terms) contributing by 1.36 p.p. in the GDP growth. While only for the third quarter of 2017 the growth rate of investments increased by 3.78%, supported also by higher inflows of foreign direct investment. Referring to quarterly national accounts statistics from INSTAT, during the first nine months of 2017 the relatively high growth of export of goods and services has improved considerably the net export and it has helped soften the negative contribution of higher imports, the latter also a reflection of significantly increased investments. During this period (January-September 2017), exports of goods & services increased by 13.73% (in annual real terms) contributing by 2.67 p.p. in the respective GDP growth, while imports of goods & services increased by 7.21%, with a negative contribution of 1.98 p.p. The following table illustrates a more detailed picture of the GDP by demand components for the nine months of 2017.

Table: Real growth rate of GDP by demand components, 9M-2017

Gross Domestic Product by Expenditure Approach	Growth	Contribution
	(in %, 9M-17 compared to 9M-16)	
Final Consumption	**2.92**	**1.49**
Private Consumption of the Households	2.56	1.14
Final Consumption of the General Government	5.86	0.38
Gross Fixed Capital Formation	**9.70**	**1.36**
Domestic Absorption	**4.26**	**2.78**
Net Export	**-3.83**	**0.32**
Exports of good & services (f.o.b)	13.73	2.67
Imports of goods & services (f.o.b)	7.21	1.98
Gross Domestic Product	**3.87**	**3.87**

Source: Institute of Statistics (INSTAT), December 2017

Graf: Dynamics of the real growth rate of GDP



Source: Institute of Statistics (INSTAT), December 2017

From the aggregate supply perspective, GDP growth of 3.87% during the first nine months of 2017 was primarily generated by the continuing positive performance of the construction sector. This sector recorded a real growth in annual terms by 14.88% in the first nine months, giving the highest growth contribution of around 1.24 p.p., in line with the total investment dynamics. Whereas for the third quarter alone construction sector increased by 7.64% in real annual terms.

Other supply sectors which somehow contributed positively during the first nine months of 2017 were (i) 'Financial and insurance activities' with a real annual growth of 10.81% and a contribution of 0.3 p.p.; (ii) 'Industry' with a real annual growth of 2.8% and a contribution of 0.37 p.p.; (iii) 'Public Administration and defense' with an increase of 5.48% and a contribution of 0.6 p.p.; (iv) 'Wholesale and retail trade' with an increase of 4.12% and a contribution of 0.65 p.p. The following table indicates a more detailed composition of first nine months of 2017 for the GDP growth from supply side.

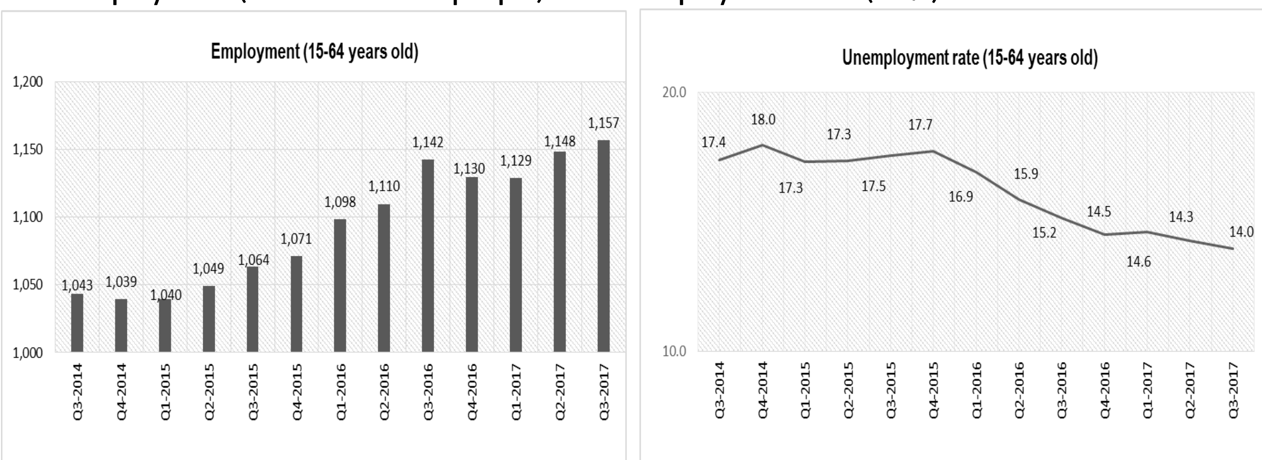
Table: Real GDP growth by supply sectors, 9M-2017

Gross Domestic Product by Economic Activities	Growth	Contribution
	(in %, 9M-17 compared to 9M-16)	
Agriculture, forestry and fishing	0.54	0.11
Industry	2.80	0.37
Construction	14.88	1.24
Wholesale and retail trade; repair of motor vehicles & motorcycles	4.12	0.65
Information & Communication	2.05	0.06
Financial & Insurance activities	10.81	0.30
Real estate activities	0.20	0.01
Professional, scientific and technical activities	2.04	0.11
Public administration and defence; compulsory social security	5.48	0.60
Arts, entertainment and recreation	0.53	0.01
Net taxes on products	4.08	0.51
Subsides on products	21.09	0.03
Gross Domestic Product	**3.87**	**3.87**

Source: Institute of Statistics (INSTAT), December 2017

The labor market dynamics has been broadly in line with the observed acceleration in economic activity. According to the Quarterly Labor Force Survey by INSTAT, employment until the third quarter of 2017 increased by 1.3% compared to the same quarter of 2016 or 14.4 thousands of new employed. The unemployment rate (for the group age of 15-64 years) continued its downward trend since the peak registered in Q1-2014 which marked a level of 18%), falling gradually to about 14% until Q3-2017, with a reduction of 1.2 p.p. in annual terms (Q3-2016) or with a reduction of unemployed persons to around 16.3 thousands during one year of timing. As for the group age of 15+ years old, the unemployment rate during the third quarter of 2017 marked a level of 13.6%. Meanwhile, the participation rate (for the group age of 15-64 years old) reached 67.1% until third quarter of 2017, while the minimum wage didn't change compared to a previous quarter but it increased by 9.1%, changing by 2,000 ALL compared to the same quarter of 2016 (reaching 24,000 ALL). Meanwhile, the average monthly wage in public sector during the third quarter of 2017 was 11% higher than the same period of one year ago, and almost 0.3% higher than the previous quarter of Q2/2017.

Graf: Employment (in thousands of people) and unemployment rate (in %)



Source: Ministry of Finance and Economy, December 2017

Based on the Balance of Payments statistics (BoP) of the Bank of Albania (BoA) for January-September 2017, even if the outcome was slightly negative, it marked an improvement compared with the same period of time a year ago reaching a level of -30 million EUR, from -105.4 million EUR in 2016. While, only for the third quarter of 2017, BP registered a positive

balance of 37.5 million EUR, in contrast with the negative level of -56 million EUR during the third quarter of 2016.
Trade deficit deepened during nine months of 2017 by 5.2% due to higher share of imports (on annual terms). However, at the same time the current account deficit shrank by 18%, as the deepening trade deficit was more than offset to a large extent by the improvement especially of net exports of services which improved by 52.5%. Within exports of services, those mainly directly reflecting touristic sector activity expanded by 12.8% with a significant contribution in the reduction of current account deficit. Also remittances increased by 14.5%; however its contribution on current account improvement is rather marginal taking into account their reduction during these last years.
Financial and Capital accounts expanded to 725.1 million EUR during nine months of 2017, compared with 408.5 million EUR during the same period of last year. While, only for the third quarter of 2017, financial & capital accounts increased to 254.8 million EUR, compared with 38.1 million EUR in the third quarter of 2016. (A more detailed description on Balance of Payments is presented in the following subsection[1]).
Inflation followed a declining trajectory in the first three quarters of 2017, down from 2.4% in the first quarter to 2.0 and 1.7% in the second and third quarters, respectively. In November, annual inflation was 1.9%. Inflation has remained in low terms due to domestic currency appreciation that began at the end of 2015 and low inflation rates in the world. The slowdown in the inflation rate is mainly due to the transient movements in some categories. Inflation is expected to remain around 2.0% in 2017, from 1.3% in 2016. The Bank of Albania expects inflation to move to higher rates in the next two years, in line with improving economic growth and the upward tendency expectations of inflation. Converging the economy to its potential will exert high pressures on wages and production costs, contributing to returning inflation to target in the medium term.

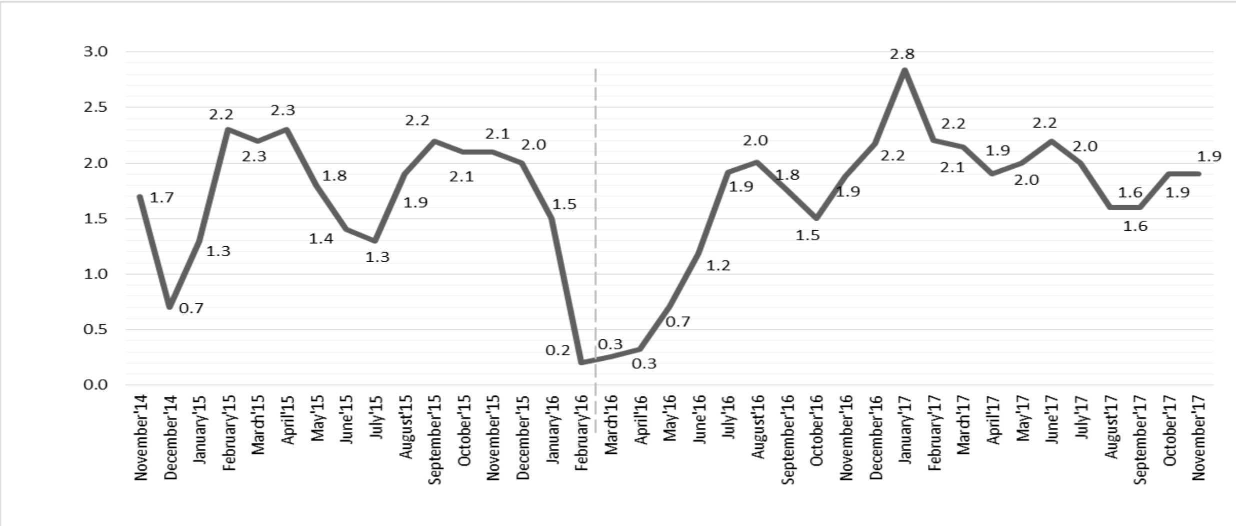
Table: Annual consumer price index growth (November'17 / November'16) and its contribution toward inflation

	Growth *(in %)*	**Contribution in Inflation** *(in p.p.)*
Food	3.7	1.39
Alcoholic beverages and tabacco	0.9	0.04
Clothing and footwear	-0.4	-0.02
Rent, water, fuel and power	0.6	0.12
Furniture, households and maintenance	-0.5	-0.03
Medical care	0.2	0.00
Transport	1.9	0.12
Communication	0.0	0.00
Recreation and culture	0.8	0.02
Education service	0.5	0.01
Hotels, coffee-house and restaurants	0.2	0.00
Goods and various services	0.3	0.01
Inflation	**1.9**	**1.9**

Source: Institute of Statistics (INSTAT), December 2017

[1] On the sub-section "*Monetary and exchange rate policy and inflation*";

Graf: The Annual Change of Consumer Price Index



Source: Institute of Statistics (INSTAT), December 2017

The monetary policy stance is expected to remain accommodative consistent with the price stability objective. The monetary policy stimulus has been fully transmitted to the financial markets. Interest rates have hit historical lows and lending standards have eased for households and small and medium enterprises. In turn, lending in ALL has increased on average by 10% y-o-y in 2017 (until October) supporting a shift of credit portfolio toward domestic lending. Credit growth has been channeled mainly to the household segment. However, the overall credit growth remains moderate, at an average of 2.9% annually due to still not solid demand and tight credit standard for the corporate segment[2].

Meanwhile, during the third quarter of 2017, deposits continued to shift, in part, toward maturity terms over two years, which are not included in the calculation of monetary aggregates. Deposits in the banking system recorded 3.5% average annual growths in Q3-2017, about 1 percentage point lower than the previous quarter. Foreign currency deposits recorded about 4.6% average annual growth, whereas those in ALL by about 2.4%. The seasonal growth of deposits during the summer months, especially in foreign currency, was lower than a year earlier. This performance, coupled with the effect of the exchange rate appreciation, is reflected in the slowdown of annual growth rates of deposits. The deposit growth in the banking system has mainly taken the form of households' deposits in foreign currency. Business deposits also increased, almost entirely in the domestic currency. At the end of September, current and demand deposits accounted for about 40.8% of total deposits, or about 0.5 percentage points higher than at the end of the second quarter.

The domestic currency has continued to appreciate further in 2017, reflecting the improvement of the external sector of the economy – the narrowing of the current account deficit and higher foreign inflows, as well as lower risk premia. In nominal effective terms (NEER)[3] ALL appreciated by 4.5% y-o-y from January through October. The Euro/ALL exchange

[2] Credit growth is adjusted for the effect of bad loans write offs during the year

[3] NEER – Nominal Effective Exchange Rate is calculated based on a basket of four currencies (Euro, USD, Turkish Lira and RMB) and five trading partners (Italy, Greece, Germany, Turkey and China). An increase in NEER implies the ALL depreciation.

rate has averaged 2.5% lower compared to the same period of 2016. The ALL has been depreciating against euro since August-2017 until October'17 leading to a smoother annual appreciation.

Monetary and exchange rate policy and inflation

The main objective of monetary policy is to achieve and maintain price stability. The monetary policy is operated under an inflation targeting regime, where the objective for inflation is set at a level of 3.0% to be achieved and maintained over the medium term. The main instrument for achieving the target is the interest rate applied in reverse repo operations with one week transaction maturity, supported by other monetary policy instruments (open market operations, credit and deposit facilities, and required reserves). In line with the chosen monetary strategy, the Bank of Albania pursues a free floating exchange rate regime where the central bank is refrained from intervening, except for reasons related to reserve adjustment or to correct market disorders.

Consistent with the price stability objective, the monetary policy has remained accommodative. Annual inflation has remained below the 3% target, reflecting subdued pressures from below-potential output and disinflationary pressures from the external markets. The appreciation of the exchange rate has amplified the disinflationary pressures from imported inflation. The policy rate was last lowered in May 2016 and has remained at its lowest historical level of 1.25% since. To strengthen the easing financial conditions, the Bank of Albania has continued to use forward guidance and to provide liquidity for the financial market aiming to lower risk premia and anchor inflation expectations.

The accommodative monetary policy has been instrumental in supporting economic growth and strengthening inflationary pressures. The monetary stimulus has been transmitted to lower interest rates in the financial markets and contained liquidity risks. Lending has continued to expand, albeit slowly, and is driven by the growth of lending in domestic currency. Looking ahead, the measures expected to be introduced in the context of reducing euroization will promote a better transmission of monetary policy in the financial system. Economic activity has grown strongly in recent quarters, supported mainly by domestic demand. Nevertheless, domestically generated inflationary pressures are building up very slowly and inflation remains volatile. Amidst this volatility, the inflation trend is upward and average annual inflation is 2.0% through October 2017. We forecast headline inflation to increase gradually over the next two years and to reach the target by mid-2019 supported by the expansion of economic activity and higher inflationary external environment.

The monetary policy stance will remain accommodative over the medium term consistent with the steady reversion of inflation to target. The forward guidance suggests that the policy rate will continue to remain below equilibrium over this horizon. The balance of risks remains tilted on the downside. The uncertainties relate primarily to the developments in the global prices, the developments in the euro area and the recovery of domestic lending. The latter is expected to be supported by improvements in the banking system balance sheet as the ratio of nonperforming loans to overall loans is rapidly declining. The accommodative monetary policy stance is consistent with the fiscal consolidation drive aimed at reducing the government debt. Fiscal policy is expected to follow a consolidation path to address public debt vulnerabilities and facilitate private sector financing. This policy mix is deemed adequate to ensure a sustainable economic growth and to safeguard macroeconomic stability. Additionally, the policy mix is expected to gain from the successful implementation of structural reforms that aim to increase competitiveness and the potential growth of the country.

External sector and its medium-term sustainability

Balance of Payment and merchandise trade developments

The current account deficit has narrowed rapidly during the first half of 2017. These developments have been broadly determined by the service sub-account driven from ever-increasing tourist receipts. Positive contributions have steamed also with the other service components. In the case of merchandise, the trade deficit has expanded as increased imports have overtaken the positive contributions related to exports. Commodity imports have increased by nearly 6.8% annually in the first 9 months of 2017 accelerating the growth pattern already observed in the previous year. As domestic demand reflects increasing growth rates, the demand for imports follow suits and this conditions is anticipated to persist in the remaining months of 2017 and across 2018 as well.

Exports of goods have also been on the increasing trend over the first 9 months of 2017, a pattern which had commenced already in the final months of 2016. At the beginning, export growth was driven from mineral based commodities. Chromium exports towards China increased as a result of improved price conditions there. At the same time, fuel exports towards neighboring countries (mainly towards Kosovo and Serbia) widened. The novelty in the case of fuels was that unlike previous periods when growth was associated with crude oil exports, it was processed fuels that lead recent exports' expansion. The new strategy of the main crude oil producer (Bankers Petroleum) to divert output sales from exports towards local refiners coupled with recent developments in the refining sector (FDI enterprise taking over the refining complex) represented the positive combination for this developments. Unfortunately, the strong growth in fuel exports was short-lived as performance has been disappointing in recent months. It is yet to be seen if growth will resume in the near future or recent developments were only a temporary shock.

Solid performance and high contributions to export growth have characterized "construction materials and metals" as well. That is in sharp difference to the developments occurring during the previous year when export shares from this commodity group were in rapid decline. During 2017, strong export growth has also featured some positive changes in terms of export partners. The share of Turkey has drastically declined but at the same time, exports towards neighbouring countries (mainly Kosovo and Macedonia) have flourished. Positive trends have also persisted in the case of foodstuff exports. Primary agricultural export growth (mainly vegetables toward neighbouring countries) has persisted in 2017. Improved collection points and easier shipment bureaucracies remain as important drivers. At the same time, exports of certain processed food categories (mainly fisheries) have produced additional contributions driven by export demand from further destination (mainly from Scandinavian countries).

Finally, garment and ready-made textiles and footwear shipments (mainly towards Italy) have maintained their status as important factors to exports growth. Such conditions are to persist in the remaining months as expectations for the garment industry growth in Italy are on the rise and labour costs in Albania remain low. Unit labour cost calculations reveal that although the indicator has been increasing, the pace of growth slowed down in recent years. As a result of all these positive trends, the merchandise exports annual growth rate for the first 9 months of 2017 records 13.3%. During the first half of the year, the growth rate was slightly above these averages due to rapid growth in fuel and mineral exports. Although the positive impact from these categories has dissipated or turned negative in recent months, large broad-based growth rates associated with the other categories was more than enough to compensate. Merchandise exports have grown annually by nearly 10% in July, 12.0% in August and 16.8% in September.

This pattern has not been affected by the continuous appreciation of the domestic currency. The real exchange rate has continued to appreciate in 2017, following a similar pattern to the nominal effective exchange rate as the inflation differential with trade partners has averaged at minimal levels. The annual real appreciation resulted 4.0% in the first quarter, same as in the second half of 2016. Then, it accelerated and peeked at 5.6% in June, and slowed down again in the third quarter, halting at 4.6% in September. Various internal analyses conducted by the Bank of Albania suggest that the recent exchange rate real appreciation is broadly in line with economic fundamentals and does not represent a significant misalignment from equilibrium. Additionally, the composite mix for export destinations has diversified with shares of neighbouring countries like Kosovo, Serbia, Montenegro and Macedonia rapidly expanding. However, in spite of these facts, not much improvement is observed in the case of export commodity mix with garments consolidating their share within the exports' structure (garment and textiles count for nearly 43.7% of overall commodity exports in the first 9 months of 2017).

Figure: Trade openness, exports, imports and Net FDI as percentage to GDP

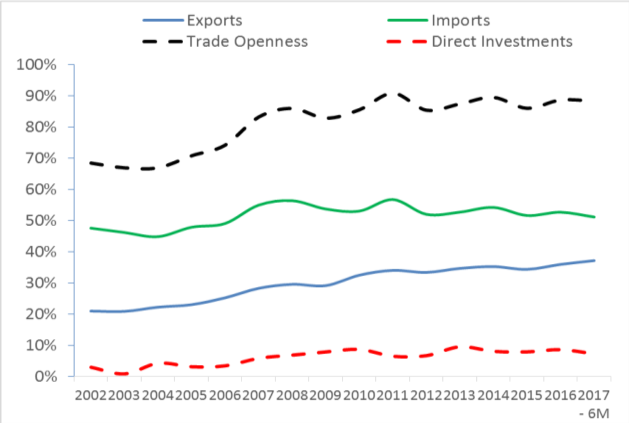
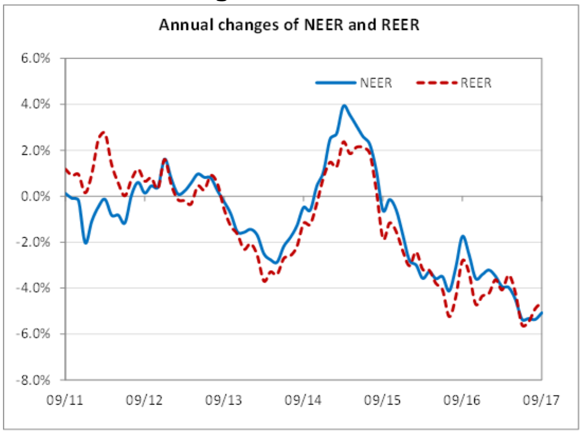


Figure: Annual changes of nominal and real effective exchange rates (%)



Source: Bank of Albania, INSTAT

According to the Constant Market Share[4] (CMS) decomposition of Albanian exports, increased competitiveness (residual component) has been the leading contributor to export growth towards the EU-15 area in 2016. Positive contributions are also related to market distribution. On the other hand, negative contributions are associated with world export growth and commodity composition.

In the case of CEFTA destinations, merchandise exports have been on the decline in 2016. The main contributions to this dynamic are associated to commodity composition and world exports with some marginal negative effects from competitiveness. On the other hand, market distribution produced a positive impact but insufficient to reverse the negative effects pouring from the other components.

Table: Decomposition of Albanian Exports using the CMS methodology (EUR million)

	2016	
	EU -15	CEFTA
World Export Growth	-37.7	-8.0
Commodity composition	-2.1	-12.9
Market Distribution	21.7	18.2
Competitiveness	78.8	-3.7
Total	60.6	-6.4

The service account has reflected positive developments throughout 2016 and in the first half of 2017. Service exports have been on the rise fostered by improvements in the tourism sector. These improvements are associated with expansion and modernization of accommodating infrastructure and enhanced awareness about Albania as a tourism

[4] See http://go.worldbank.org/KQCHUD4JN0 for a discussion on CMS

destination. In addition, positive contributions have also arrived from the other service components. As a result, service exports expanded by 26.3% on annual aggregate during the first half of 2017. Service imports have also been on the rise driven from travel imports. Overall, the service account surplus expanded by 63.1% on annual terms during the first half of 2017.

The primary income account surplus[5] shrank by nearly 65.9% on annual aggregate in the first half of 2017. This was mainly driven from increased investment related outflows and in particular Direct Investment income outflows. As recent FDI growth associated with large infrastructure projects is expected to persist, so are income outflows related to direct investment in general. Nevertheless, as labour related income inflows dominated this account, a surplus condition is expected to remain in this year although reduced compared to 2016.

The secondary income surplus has remained relatively unaltered in the first half of 2017 as compared with the previous year. Remittance inflows have increased by 3.2%, a pattern inherited from the second half of the previous year. Moderate remittance growth is expected for 2017 with remittance inflows accelerating in 2018.

Net foreign direct investments have increased by 10.7% on annual aggregate terms during the first half of 2017. The growth was mainly concentrated in the first quarter of the year as inflows have been diminishing year on year during the second quarter. FDIs associated with the major projects in the energy sector (in particular the Trans-Adriatic Pipeline) have been on the forefront of recent dynamics. Major developments already commenced last year and are expected to peak in 2017 as FDI inflows are forecasted to increase by 13.7% on annual terms. This rate is forecasted to shrink in 2018 (4.4%) with the growth momentum expected to dissipate as major projects enter in the completion phase.

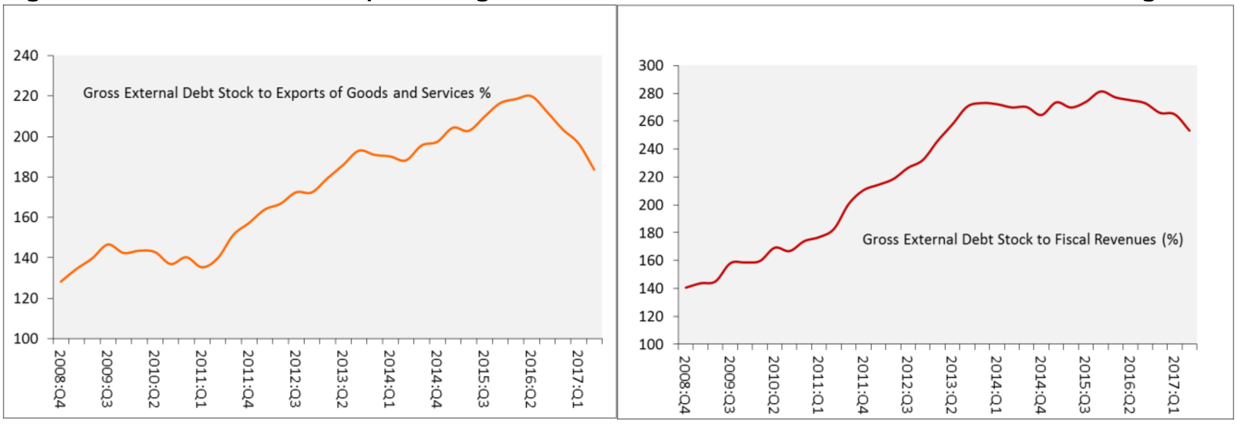
Portfolio investment assets accumulated to a negative of EUR 163.3 million across the first half of 2017 compared to a positive EUR 89.1 million the previous year, as a result of falling investment in debt securities abroad. On the other hand, liabilities increased due to higher debt obligations. The overall balance features a deficit positions in particular during the first quarter of 2017. In the first half of 2017, non-debt-creating inflows are once again the main contributor to current deficit financing. These inflows are expected to increase their contributions in terms of current account financing in the remaining part of 2017 due to higher expected FDI inflows.

External Debt developments

The stock of the gross external debt of Albania reached EUR 7,850.6 million in the second quarter of 2017 standing at 70.0% on nominal GDP. Long-term debt constitutes 79.6% of total gross debt composed primarily of long term loans to the central government and other sectors. Short term debt stands at 20.4% of total debt with the main contributions coming from banks' external borrowing. From a sustainability perspective, the long-term repayment capacity indicators of the external debt of Albania have been slightly improving in the recent quarters. The ratio of gross external debt over exports of goods and services stood at 183.6% at end of the second quarter of 2017 down from 220.0% a year ago. Additionally, the ratio of external debt stock over fiscal revenues stood at 253.2% as compared to 275.1% a year ago. At the same, the ratio of the central government's debt stock over fiscal revenue stood at 109.4% down from 117.2% in the second quarter of 2016. Liquidity adequacy indicators reveal low pressures from overall debt servicing. The ratio of reserve assets over short term external debt stood at 163% at the end of the second quarter of 2017. At the same time, the ratio of external debt amortization over exports of goods and services recorded 10%.

[5] Time series related to Primary Income from Compensation of Employees have been recently revised due to improved information on the matter. The time-span for these revised statistics stretches from the first quarter of 2013 to the last publication (second quarter of 2017).

Figure: External debt over exports of goods and services (left) and over fiscal revenues (right)



Source: Bank of Albania

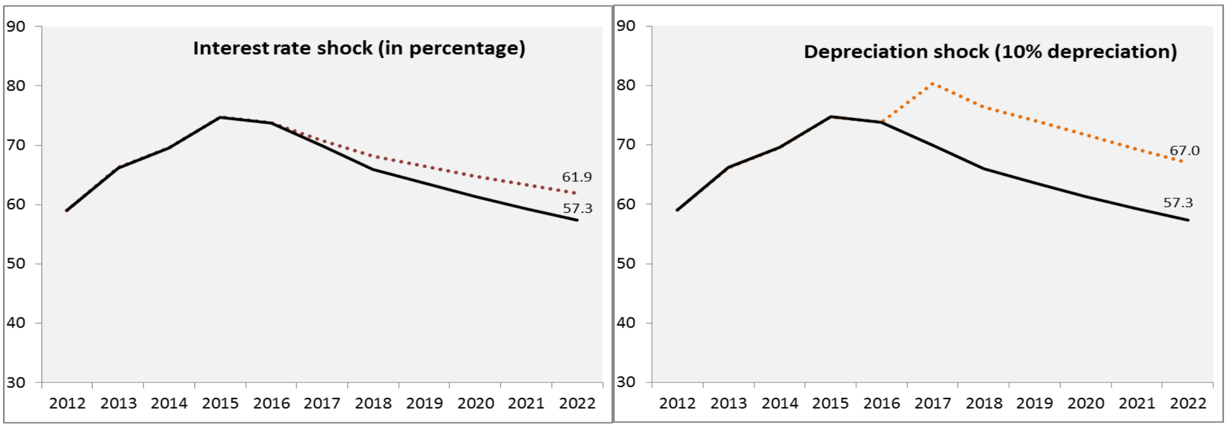
The short term external debt stock over nominal GDP ratio stood at 14.3% at the end of the second quarter of 2017 remaining at almost the same level as a year ago. At the same time, the ratio of short-term external debt over exports of goods and services stands at 37.5% down from 42.3% in the second quarter of 2016.

Figure: Short-term external debt to GDP ratio (left) and average external debt maturity (right)

Source: Bank of Albania

Risks to external debt sustainability analysis show higher vulnerability to exchange rate shocks rather than interest rate shock in the future. In this aspect, two separate shock simulations are conducted. In the first scenario, the interest rate for external debt is shocked with a permanent increase of two standard deviations for the future horizon. In the second simulation scenario, a 10% temporary real domestic currency depreciation is introduced for year 2017. The deviation of the external debt is clearly more profound under the depreciation scenario. The graphs below show the path of external debt as a ratio to nominal GDP under the baseline and each shock scenario separately.

Figure: Gross External Debt to GDP at baseline and under risk scenarios: Nominal interest rate shock (left) and real depreciation shock (right)

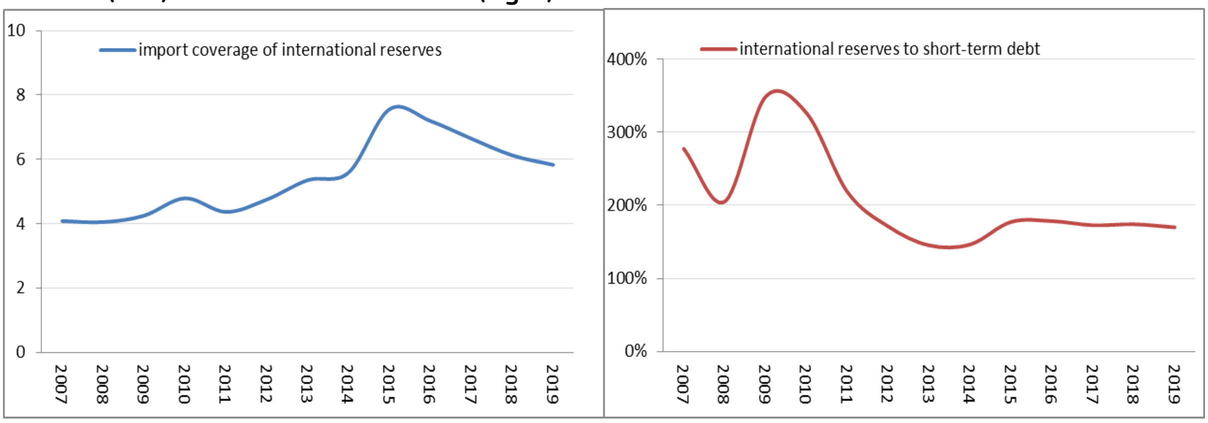


Source: Bank of Albania

Reserve stock developments

Bank of Albania is committed to holding a sufficient level of foreign reserves. It has developed a framework for assessing the adequate level of foreign reserves which takes into account external vulnerabilities as well as the cost of holding reserves. It is imperative that the foreign reserves stay above levels sufficient to cover 4 months of imports of goods and services and 100% of the external short-term debt in the medium run. At the end of the third quarter 2017, the international reserves are estimated to cover around 6.5 months of imports of goods and services and around 170% of the short term debt, staying well above the thresholds. Both these criteria are expected to remain well above the adequate levels in the medium run.

Figure: Projection of international reserves relative to imports of goods and services in months (left) and to short-term debt (right).



Source: Bank of Albania

Structure of financial sector

The Financial Supervisory Authority supervises the non-banking financial markets that according to the estimates for September 2017[6], reached total assets of ALL 105.2 billion or 786.7 million Euros.

[6] The database of the banking sector, pension and investment funds refers to September 2017. For the other segments of the financial system (non-bank financial institution and SLAs companies) the latest report on their activity belongs to the second quarter of 2017.

Voluntary pension market

During the reporting period there were three management companies of voluntary pension funds and three banks as depositories of pension funds. Data analysis for the private voluntary pension market (cut-off date 30.09.2017[7]) shows total assets under management about ALL 1.6 billion (11.9 million Euro) and an annual increase of approximately 39%. The activity of pension funds is dominated by investments in government debt securities. The value of these investments was around ALL 1.5 billion or 35% higher than the same period previous year. By the end of September 2017 the number of members in the pension funds was 20,223 members, from 15,957 a year ago.

Insurance market

During the reporting period[8] 11 insurance companies are present in the Albanian insurance market, up from 10 at the end of 2016. The privatization of INSIG Company in two separate companies increased the insurance companies' number in the market. The insurance market[9] increased by 11.45% during January-September 2017 compared to the previous year. The number of issued insurance contracts reached 932,106 showing an increase of 15.23 % in annual terms. The market continued to be dominated by Non-Life insurance, whose share was 92.52% of the total premium volume. Market shares of voluntary and compulsory insurance gross written premiums were respectively 38.62% and 61.38%.

Securities Market, Investment Funds

As of the third quarter of 2017, the market of investment funds[10] is made of three active funds, respectively "Raiffeisen Investment Fund Prestige'', "Raiffeisen Invest Euro Fund'' and "Credins Premium". Their net asset value amounts at ALL 73.6 billion with an increase of 5.2% compared to same period previous year. The number of members who have invested in investment funds is 31,710 against 30,961 members on 30.06.2016. This market is dominated by investment in government bonds, which represent 62.5% of fund assets, from 61% on 30.09.2016.

Data on the securities market

During the reporting period, the most active segments of the securities market was the retail of trade securities issued by the Albanian Government (treasury bills and bonds). 8 banks and the Albanian Post Office were active in this market. The performance of the government securities retail market outcomes may be followed on a daily basis via the official website of the FSA, in the GSRM Government Securities Retail Market section. The statistical data of retail market of the government securities retail market for January- September 2017[11] shows a predominance of purchases in the primary market and payment of nominal value at maturity (respectively 61% and 29.1% of the total volume). Participation in the retail market of the government securities was dominated by individual investors, who perform about 68.1% of all transactions in this market, in comparison with legal persons.

Banking sector developments[12]

The share of the activity of the financial system in the Gross Domestic Product (GDP) is estimated to have decreased to 102.4% at the end of third quarter 2017 from 104.4% the same period previous year, but the main financial indicators have improved. The decrease in

[7] Financial Supervisory Authority publication "Voluntary Private Pension Market", 30.09.2017

[8] January- September 2017

[9] Financial Supervisory Authority publication "Albanian Insurance Market Developments for the period January - September 2017"

[10] FSA, "Investment fund general data", 30.09.2017

[11] FSA, Statistics publication on "Government securities retail market"- 25 October, 2017

[12] The database for this section belongs to September 2017- for monthly and quarterly indicators

the share of the financial system was driven mainly by the increase of GDP at a faster rate than financial system assets. Overall, the positive developments in the economic environment at large provided better support for the activity of the financial system. Indicators of the financial performance, capitalization and liquidity of the activity have improved. However, the analysis of determinant factors and stress test exercises suggest the need for on-going monitoring of their performance over time. Developments in the banking sector during 2017 showed a significant improvement of the credit quality.

Assets of the Albanian banking sector have increased 4.3% annually in September as opposed to 3.1% a year earlier. The main contribution to growing-up of assets was given by interbank investments (mainly in non-resident financial institution). Securities portfolio expansion and provision funds contraction due to the asset quality improvement (repayment/write-off process), gave a positive contribution too to the asset growth development. The lowest contribution to the performance of the assets was given by clients' transactions representing the lending activity. About 22.1% of assets consist of government debt securities held by residents. Compared to the previous year, the loan stock grew by 1.2%. Long-term loans contributed (+ 5.9%) to total growth; while short-term and medium-term loans declined by 3.6% and 2.2% respectively. Credit to households expanded by 4.7%, while loans to businesses decreased by 1%. Banking activity continues to be fundamentally funded by deposits, which account for about 81.2% of total assets. Loan-to-deposit ratio is about 52.4%. In annual terms, deposit base grew by 3% or ALL 34 billion, but time deposits fell by ALL 14.4 billion or 2.1%. By currency, deposits in domestic currency and foreign currency increased by 1.5% and 4.4% respectively. By sector, private sector and household deposits grew by 16.6% and 1.3% respectively. Banking sector assets to non-residents recorded lower growth rates to 2.6% from 13.2% a year earlier. In September 2017, assets with non-residents accounted for 27.9% of total assets, whereas liabilities to non-residents accounted for 6% of total liabilities. The net position of non-residents continues to be "lender" and about 2.1% higher in annual terms. The main contribution to the performance of the non-resident asset has been given to the expansion of interbank transactions and the portfolio of securities. The dependence of the banking sector on external sources of funding remains limited.

The banking sector's capitalization remains satisfactory. The capital adequacy ratio scored an increase of 16.4% versus 15.6% a year earlier, driven by the faster decline of risk-weighted assets (-2.5%), while regulatory capital grew (+ 2.3%) in annual terms, as a result of improving financial result. Net financial results showed very high levels due to lower expenses for provisions, but net interest income continued to decrease (y-o-y). In September 2017, Return on Assets (RoA) and Return on Equity (ROE) – profitability indicators – were respectively at 1.6% and 16.3% level, from 0.65% and 6.8% of the previous year.

The quality of the loan portfolio improved during the period, mainly driven by developments in write-offs[13], repayment and restructuring. The ratio of NPLs to total gross loans fell to 14.8 % in September 2017 from 21.3% previous year. NPLs net of provisions to capital fell to the 16.9% level in September 2017 from 32% previous year.

The banking sector appears to be well-hedged against direct risk from adverse exchange rate and interest rate movements, and the sensitivity to such changes has decreased. The limited net open foreign exchange position in the balance sheet to the regulatory capital (at 4.9%) and their "long" position suggested limited exposure to the exchange rate risk depreciation. However, the exposure to indirect market risk from unhedged borrowing in foreign exchange remains relatively high. Such unhedged foreign currency loans constitute around 25.6% of total loans.

[13] Starting from January 2015, banks are obliged by regulatory requirements to undertake the process of clearing balances - delete loans that are marked as "lost" for over 3 years. From January 2015 until August, the total amount of reported "write offs" was ALL 44.5 billion.

The liquidity position of the banking system remained strong. The banking sector exposure to liquidity risk is low. Liquidity ratios (liquid assets to short-term liabilities), both in ALL and in foreign currency, are above the minimum regulatory ratios[14]. At the end of September 2017, liquid assets accounted for 29.1% of total banking sector's assets from 29.9% previous year. The banking sector in Albania has prudential capital and liquidity reserves that could accommodate strong shocks triggered by domestic and external adverse macroeconomic developments. Stress tests of banking sector liquidity from a macro prudential perspective are indicative of a good capacity to withstand a moderately strong shock triggered by financing withdrawal.

Risk assessment

Regarding the activity risks that the banking sector is faced with, the Bank of Albania assesses as follows:

a) Credit risk fell significantly during the period as well as against the same period in the previous year. Non-performing loans fell by 29.7% in annual terms. As a result, the ratio of non-performing loans fell to 14.8% in September 2017 from 21.3% the same period previous year. Banks actions to collect, restructure, and write them off from the balance sheet contributed to the reduction of the non-performing loans. Non-performing loans were also reduced across all the constituting categories, with each recording a decrease in the value. Among the existing non-performing loans, the lowest quality is noted in the foreign currency credit, credit to enterprises and credit with longer-term maturity. The reduction of non-performing loans is accompanied by the improvement of their coverage with reserve funds (provisions) and capital, while the level of credit collateralization improved slightly. The reduction of non-performing loans during the period is a notably positive development, which will release resources of banks engaged in the management of non-performing loans, gradually improve the perception of the banking sector on the credit risk, and eventually give a stronger boost to credit growth in the period ahead. In the process of resolving the non-performing loans, banks appear more active with regard to early restructuring. As a result, this will better contribute not only to reducing the stock of non-performing loans, but also to keeping their new flows under control. Regardless of the significant improvement, the level of non-performing loans in the banking sector is estimated as still high. This situation requires the banks to be fully and constantly engaged in this process.

b) Liquidity risk in the banking activity is considered as low. The liquidity ratios, both in lek and foreign currency, stand significantly above the minimum regulatory requirements. Deposits are the main source of financing, covering almost double the volume of the sector's credit. Reliance on foreign credit lines is very low. Yet, the negative gap between assets and liabilities by segment of residual maturity, vis-à-vis the total assets in the short-term, is considered as high and has increased against previous periods. The change in the structure of liabilities, in which the share of time deposits continues to lessen against other non-term alternatives, contributes to maintaining this gap. Such structure of liabilities imposes the need for the banking sector to maintain high level of liquid assets, and seek higher return through longer-term investments. This feature is related to the actual stage of the financial cycle and should gradually change at a time when macroeconomic developments require an increase in interest rates, which leads to higher opportune cost of the public for maintaining their savings in more liquid forms.

c) The banking sector's exposure to market risks remains important. The banking sector's net open position in foreign exchange to regulatory capital ranged within long-term levels, pointing to a limited and downward exposure of the banking sector to the direct impact on the balance sheet, from the exchange rate volatility. During the period, the unhedged foreign

[14] Banks must hold liquid assets covering 15 per cent of short-term liabilities in each currency with an aggregate requirement of 20 per cent.

currency credit remained stable in terms of both total credit and foreign currency credit. At the same time, its quality improved. Overall, these developments show that, during the period, the banking sector has controlled the direct and indirect exposure to exchange rate fluctuations; however, the exposure is assessed to be still high and actions need to be taken more actively for reducing it further. The Bank of Albania believes that the measures proposed in the framework of the strategy for reducing the usage level of foreign currencies in the Albanian financial system and economy, will contribute toward achieving this objective. These measures have been discussed with the banking industry and work has started for preparing the necessary regulatory acts.

d) About the impact of movements in the interest rate, the banking sector remains exposed to fluctuations in the interest rate, at a time when the gap between assets and liabilities sensitive to interest rate according to re-pricing periods, is relatively high. The current environment with relatively low interest rates suggests the need for the banking sector and other non-bank financial institutions, such as life insurance companies, private supplementary pension funds and investments funds, to evaluate regularly direct and indirect implications, which could result on their activity from the unfavourable movements in the interest rates.

e) Some of the European banking groups that operate in Albania are still undergoing a restructuring process for improving their financial situation. This process includes operations such as: restructuring the network, change of shareholders and merging with other institutions. Developments in the European legislation regarding the recovery and resolution of banks have rendered these processes more effective and unfelt for the banks' clients. At the same time, such legal definitions and operational actions highlight the importance of coordination between relevant authorities in the countries where the banking group under restructuring operates. In this regard, the Bank of Albania remains committed to monitoring the developments and coordinate potentially necessary actions with the relevant domestic and foreign authorities, in order to achieve the ultimate objective of safeguarding the stability of the financial system.

Efficiency of financial intermediation: provide information on the development of interest rate spreads (average lending/deposit rates); degree of competition in banking sector; share of non-performing loans. The banking system continued to display a stable trend in terms of allocating and using financial resources. This was also reflected in the Herfindahl Index, which measures the level of concentration in the banking system. Concentration indicators, as measured by the Herfindahl Index, for total assets, deposits and loans, provided evidence for a relatively high concentration in the banking system in terms of assets, deposits and less for loans. However, there is a slightly better distribution of shares in the market during the last years that consequently indicates increased competitiveness.

Herfindahl Index of asset, deposit and loan concentration

Indicator	2008	2009	2010	2011	2012	2013	2014	2015	2016	09/17
HI_assets	0.15	0.14	0.14	0.15	0.15	0.14	0.14	0.15	0.15	0.15
HI_deposits	0.17	0.15	0.16	0.16	0.15	0.14	0.14	0.14	0.14	0.15
HI_loans	0.11	0.11	0.11	0.12	0.12	0.12	0.12	0.12	0.13	0.13

Non-performing loans (in percent); Non-performing loans (NPL) as per cent of gross loans

	2008	2009	2010	2011	2012	2013	2014	2015	2016	09/17
Non-performing loans	6.64	10.48	13.96	18.77	22.49	23.49	22.8	18.22	18.27	14.78

Interest rate spreads; Average monthly spread

	2008	2009	2010	2011	2012	2013	2014	2015	2016	09/17
Interest rate spreads (average lending/ deposit rates)	5.69	6.81	5.96	5.6	5.4	6.1	5.89	5.67	4.76	4.69

Core-activity profitability indicators, in percentage (cumulative)

Ratios	2009	2010	2011	2012	2013	2014	2015	2016	09/17
Interest income/average interest-earning assets (1)	8.1	8.11	7.78	7.73	7.31	6.28	5.72	5.2	4.9
Interest expenses/average interest-paying liabilities (2)	4.06	3.78	3.57	3.72	3.42	2.14	1.29	0.94	0.68
Net Interest Margin (NI M) {(1)-(2)}	4.04	4.32	4.2	4.01	3.88	4.15	4.42	4.23	3.89

Source: Bank of Albania

Planned measures to address euroization

In order to reduce risks to financial stability as well as improve the effectiveness of monetary policy, the Bank of Albania intends to implement a set of measures that aim to increase the use of national currency. These measures consist in (i) differentiating between the reserve requirements for lek and foreign exchange deposits; (ii) differentiating between the regulatory liquid ratios to be held in lek and in foreign currency; (iii) increase the awareness of borrowers for risks related with credit in foreign currency. In order to achieve this, banks will be required to offer to potential borrowers in foreign currency, an alternative and comparable loan in Lek. In addition, banks have to provide such borrowers with a written example showing how the loan instalment in foreign currency could change if the Lek exchange rate depreciates significantly or foreign interest rates rise, in order for the borrower to visualize the impact on his/her payment capacity. These changes are planned to be introduced over 2018, while they are already being discussed with the stakeholders.

The planned measures are expected to strengthen the lending and exchange rate channels of monetary policy transmission, thus increasing its effectiveness. Higher reserve requirement ratios for foreign currency deposits are expected to provide incentives for banks to lower these deposits, and lower the sources of foreign currency lending accordingly. In addition, by lowering the unhedged foreign currency borrowing, these measures will help to mitigate the banking system exposure to indirect exchange rate risk and strengthen the banking sector performance. Higher reserve requirement rate and liquidity ratio for liabilities in foreign currency will also help to mitigate liquidity risk, and in turn contribute positively to strengthening of the financial stability. Overall, the system should be more resilient and hence more competitive. Since the use of foreign currency concerns to a wider extend than banking system, the Bank of Albania, the Ministry of Finance and the Financial Supervision Authority have signed a Memorandum of Understanding which supports the introduction of de-euroization measures extended also to the rest of the financial system and the economy. These authorities will issue regular reports that will identify and monitor the impact of de-euroization measures in selected indicators.

2.3. Alternative scenarios and risks

The baseline scenario is estimated to have a relatively high chance to materialize in overall. However the forecasting of alternative scenarios - assuming that a reasonable part of various risks surrounding the baseline scenario might materialize - is an important component of public finance planning. In order to increase the quality of planning, to have a more efficient management of public funds in any situation that has a certain probability to occur, below are briefly presented two alternative scenarios, specifically a "pessimistic" and an "optimistic" one.

Each of the alternative scenarios assumes that a set of negative (in case of a "pessimistic" scenario) or positive risks (in case of an "optimistic" scenario) will materialize. This set of risks assumes deviation from the respective forecasts of baseline scenario for some key macroeconomic indicators, including lending to the economy, the performance of the Eurozone economy with the consecutive effects on the exports of goods and services, on remittances, on various foreign capitals flows as well as exchange rate, interest rate, the pace and the impact of structural policy reforms planned for the medium term period ahead, etc. The overall net effect of all the assumed, negative or positive risks is given as an initial shock in terms of a single variable: real economic growth, for simplicity of the analysis (modeling). Therefore, the alternative scenarios are based on different economic growth assumptions from the baseline for each year 2018 – 2020.

Table: Alternative assumptions in each scenario

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
							Est.	Proj.	Proj.	Proj.
Real GDP growth (%)										
Baseline	2.5	1.4	1.0	1.8	2.2	3.4	3.9	4.2	4.3	4.4
Pessimistic								2.7	2.8	2.9
Optimistic								5.2	5.3	5.4
Nominal GDP (in billion Lek)										
Baseline	1,301	1,333	1,350	1,395	1,428	1,473	1,555	1,650	1,755	1,873
Pessimistic								1,626	1,705	1,793
Optimistic								1,666	1,789	1,927
Revenue (% of GDP)										
Baseline	25.4	24.8	24.2	26.3	26.6	27.6	28.2	28.1	28.1	28.1
Pessimistic								27.6	27.6	27.6
Optimistic								28.1	28.1	28.1
Overall fiscal deficit (in billion Lek)										
Note: The overall fiscal deficit in nominal terms for each alternative scenatio is targeted to be more (less) in the case of the pessimistic (optimistic) scenario than the baseline nominal deficit by 50% of the total revenue difference between the baseline and each respective alternative scenario										
Baseline	-45.8	-45.9	-66.9	-72.1	-58.2	-26.7	-31.2	-32.4	-29.8	-22.7
Pessimistic								-39.8	-41.1	-38.4
Optimistic								-30.1	-25.0	-15.1

Source: Ministry of Finance and Economy

3. FISCAL FRAMEWORK

3.1. Policy strategy and medium-term objectives

Fiscal policy in the medium term is clearly oriented towards fiscal consolidation, in line with the fiscal rules set out in the Organic Budget Law (see box below on fiscal principles and rules). The fiscal consolidation and reduction of public debt are essential to lower debt-related vulnerabilities that hamper growth and cause macroeconomic instability. To reduce public debt-related vulnerabilities, we have undertaken some fiscal adjustment over the past few years. The overall fiscal balance has improved by about 3 pp. of GDP from 2014 and 2017, supported by revenue mobilization, expenditure restraint, and the implementation of several administrative reforms. Since 2016, a positive primary balance (primary surplus) has been recorded, compared to a primary deficit of 2.3% in 2014. Tax revenues are increased considerably in recent years from 22.2% of GDP in 2013 to about 26% of GDP in 2017, driven by tax policy measurement and improved tax administration. The reform against informality also helped to increase revenue collection. On the expenditure side, substantial savings were realized from reforms in the pension and energy sector, as well as from efficiency gains in public administration. Also, as regard debt management during these years the risks of changing terms have been reduced by diversifying and extending significantly the maturity of public debt.

The baseline fiscal scenario targets a fiscal deficit at the level of 2.0% of GDP in 2018, a level of 1.7% of GDP in 2019, and aims at further reduction to 1.2% by 2020. At the same time, it is constantly targeting a positive and growing primary balance in years 2018-2020, respectively 0.6% of GDP in 2018; 1% in 2019; and 1.5 percent in 2020. Also, the current balance, defined here as the difference between public investment and annual deficit, is targeted at high levels and gradually increasing over the medium term. The current balance in 2018 and 2019 is targeted at the level of 3.3% of GDP and 3.7% in 2020.

The fiscal consolidation aims to keep the downwarding trajectory of public debt as a ratio to GDP started since 2016. Public debt is expected to fall at about 68.7% of GDP in 2018; 66.4% of GDP in 2019 and 63.5 % in 2020. The medium-term indicative target for public debt is its reduction below 60% in 2021.

At the same time, this fiscal framework accommodates budgetary policies which support economic growth and offset the tightening effects of fiscal consolidation. Public investments of central government in the short and medium term are preserved at an average of 5% of GDP, which is important to fuel aggregate demand in the short run and shift potential growth in the medium and longer term.

Public financial management reforms are crucial to increase the efficiency of budget spending as well as create space for more productive spending in the medium and long term. We have launched several PFM reforms, some of which are close to finalization and we remain fully committed to finalizing them all.

FISCAL PRINCIPLES AND RULES

In full compliance with the obligations deriving from the Organic Budget Law (OBL) No. 57/2016, the fiscal framework 2018-2020 materializes the following fiscal principles and rules:

1. *In each annual budget law, original or revised, the ratio of public debt to GDP shall be planned lower than the estimated level of the previous year, until the debt level reaches and stays under the threshold of 45% of GDP.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework 2018-2020 *targets an annual a level of total public debt in percentage of GDP significantly lower than the level of the previous year*.

2. *Nominal value of GDP in ALL which is used to calculate the ratio of public debt to GDP for projected years and for previous year, cannot be higher than the one forecasted or estimated in the IMF's World Economic Outlook report, the latest published in the time when annual budget proposal is submitted for approval to the Assembly. This fact is clearly documented in the explanatory note of the annual budget proposal.*

In accordance with this provision (fiscal rule) of the OBL, the 2018-2020 framework *is based on the following nominal GDP projections, which are not higher than the projections of the World Economic Outlook report*, of International Monetary Fund , most recently published on October 2017.

Forecasted nominal GDP of the IMF and MoFE (in billion Lek)

	2015	*2016*	*2017 Fore.*	*2018 Fore.*	*2019 Fore.*	*2020 Fore.*
IMF – World Economic Outlook	1,428	1,473	1,555	1,651	1,755	1,874
MoFE	1,428	1,473	1,555	1,650	1,755	1,873
Difference IMF - MoFE (should not be less than zero)	0	0	0	1	0	1

3. *Each planned budget year includes a specific contingency of no less than 0.7% of total budget expenditure, to compensate potential risks from fluctuation of exchange rates or interest rates, affecting the debt level.*

In accordance with this provision (fiscal rule) of the OBL, the 2018-2020 framework includes each year in a separate item, labeled "Contingency on interest rate fluctuations, etc.", *a contingency of over 0.7 percent of total expenditures.*

4. *Revenues from privatization are not part of the budget planning. In case of their collection, they are used not less than 50% for the public debt reduction, and the remaining part for investments*.

In accordance with this provision (fiscal rule) of the OBL, the 2018-2020 framework *does not include revenues from potential privatizations.*

5. *The annual amount of the budget deficit cannot exceed the annual amount of capital expenditure, approved each year in the budget law.*

In accordance with this provision (fiscal rule - "golden rule") of the OBL, the annual deficit targets in the 2018-2020 framework *are significantly lower than the planned capital expenditure.* Consequently, the targeted current balance is positive at an average of 3.4 percent of GDP in each programmed year.

3.2. Budget implementation in 2017

The implementation of the state budget on time and in respect of the legal authority, except the fact that is a guiding factor, it contributes and stimulates the economy through public expenses execution. In this context, effective realization and on time of budget expenses, according to the program, remains a priority of the government. The Ministry of Finance and Economy has contributed to facilitate this process by harmonizing the requirements of budgetary institutions with the Government's fiscal policy. As a result of continuous monitoring, it has handled with competence every specific change on governments' expenses.
General Public Expenditures, during the 11th month of 2017 reached the level of about 401 billion ALL, with a realization of 96.6 percent of the plan. Compared to the same period of 2016, this item resulted 11 percent higher or about 39.8 billion ALL more. *In annual terms*, total expenditures for the eleventh month of 2017, were realized at about 84.6 percent of the annual plan, changed with the Normative Act nr. 3, dated 06.11.2017.
Current and capital expenditures have marked an optimum performance, respectively at 98.2 percent and 86 percent of the period's plan. Meanwhile, *in annual terms* they were realized respectively at about 87.2 percent and 70.1 percent of the annual plan.

Table: Consolidated fiscal indicators during the 11-month of 2017 (in million ALL)

Items	November 2017		Difference		Year 2017	
	Plan	Actual	Actual-Plan	in % over Plan	Annual Plan	% of annual realization
Total Revenues	395,783	390,412	-5,371	98.6%	442,901	88.1%
Total Expenditures	414,966	400,983	-13,983	96.6%	474,102	84.6%
Current Expenditures	*349,414*	*343,126*	*-6,288*	*98.2%*	*393,372*	*87.2%*
Capital Expenditures	*59,715*	*51,371*	*-8,344*	*86.0%*	*73,330*	*70.1%*
Deficit/Surplus	-19,183	-10,571	8,612	55.1%	-31,201	33.9%

Source: Ministry of Finance and Economy 2017

Table: Consolidated fiscal indicators during the 11-month of 2016 and 2017 (in million ALL).

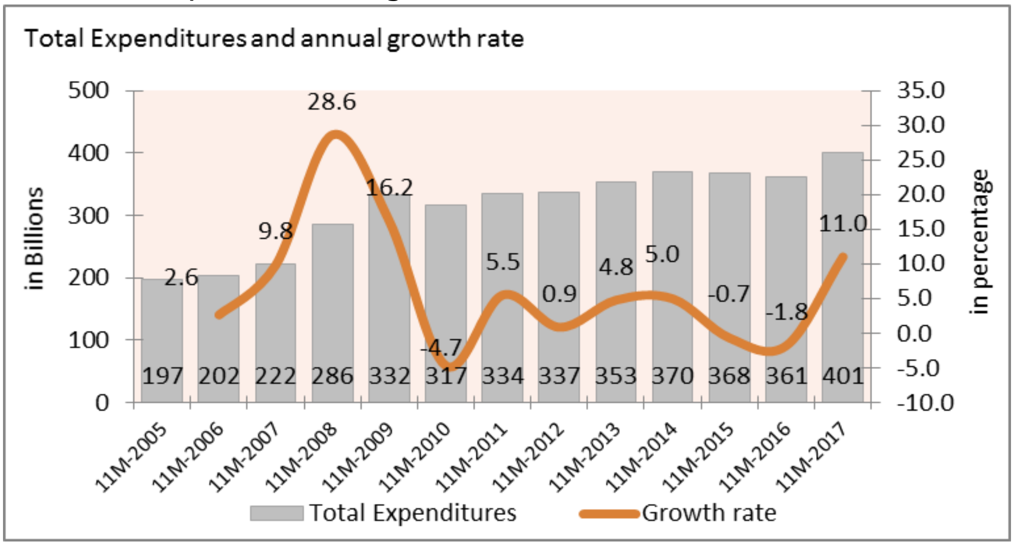
Items	Actual November 2016	Plan 2017	Actual 2017	Difference		Difference	
				Actual 2017 Plan 2017	in % over Plan 2017	Actual 2017 Actual 2016	in % over Actual 2016
Total Revenues	368,305	395,783	390,412	-5,371	98.6%	22,107	106.0%
Total Expenditures	*361,218*	414,966	400,983	-13,983	96.6%	39,765	111.0%
Current Expenditures	316,435	*349,414*	*343,126*	-6,288	98.2%	*26,691*	108.4%
Capital Expenditures	*44,783*	*59,715*	*51,371*	-8,344	86.0%	*6,588*	114.7%
Deficit/Surplus	7,087	-19,183	-10,571	8,612	55.1%	-17,658	-149.2%

Source: Ministry of Finance and Economy 2017

Total revenues, for the eleventh month of 2017, reached the level of about 390.4 billion ALL with a realization of about 98.6 percent of the plan. Compared to the same period of 2016, this item was 6 percent higher or about 22.1 billion ALL more. *In annual terms,* total revenues for the eleventh month of 2017 were realized at 88.2 percent of revised annual plan.
Current expenditures for the eleventh month of 2017 reached the level of about 343.1 billion ALL, compared to the same period of the previous year, this item resulted 8.4 percent higher or about 26.7 billion ALL more.

Capital expenditures for the 11th month period of 2017 represents a realization of about 51.4 billion ALL. Compared to the same period of 2016, this item is 14.7 percent higher or about 6.6 billion ALL more.
The level of deficit in the eleventh month of 2017 was about 10.6 billion ALL, or about 17.7 billion ALL lower than the same period of the previous year, or 49.2 percent less.

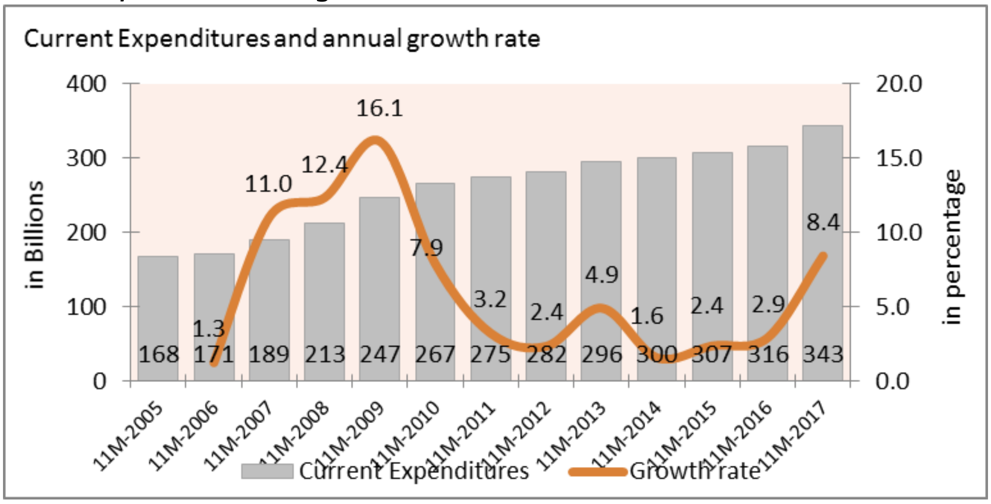
Chart: Total Expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy 2017

Current expenditures, in relation to the 11th month plan of this year, represented a realization of 98.2 percent, resulting in about 343.1 billion ALL. The main items affecting their level of implementation were respectively: personnel expenses by 99.5 percent, special funds with 98.7 percent, operating & maintenance with 92 percent and other social expenses with 94.5 percent. The level of public expenditure performance, were accompanied by a deficit level of approximately 10.6 billion ALL.

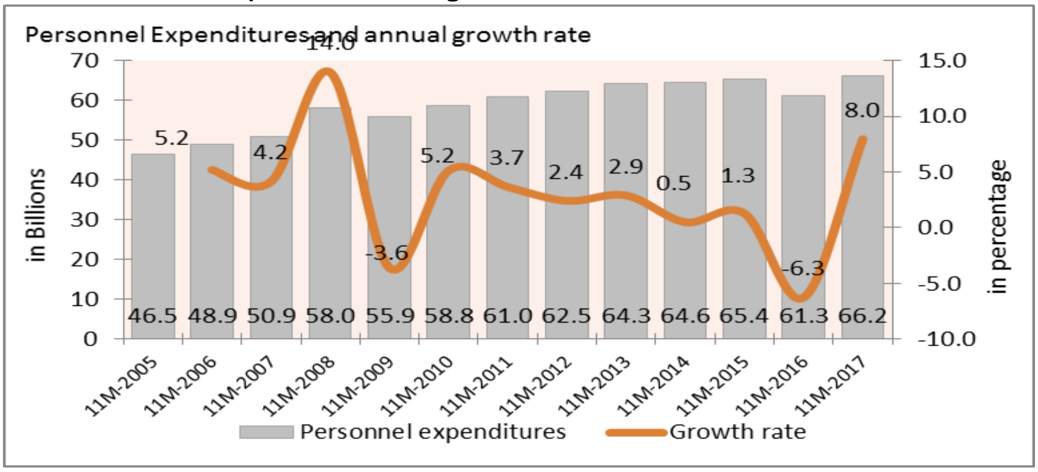
Chart: Current expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy (2017)

Personnel expenditures, during November 2017, represented 19.3 percent of the total current expenditures. Their actual level of about 66.2 billion ALL, realizes the forecasted level for this item in the 11th month period, at 99.5 percent. Compared to the same period of 2016, this item is 8 percent higher or about 4.89 billion ALL more.

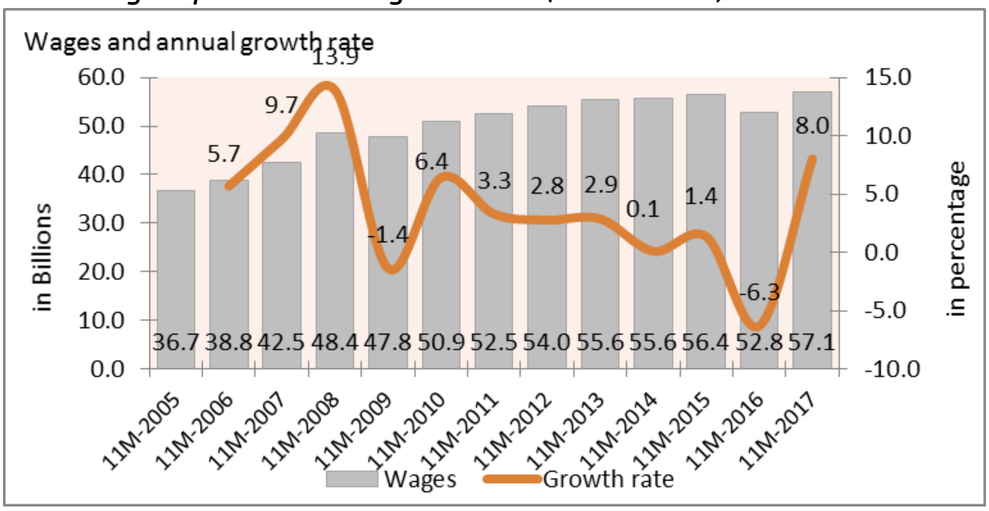
Chart: Personnel Expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy 2017

Wages expenditures at the end of November 2017, were realized about 57.05 billion ALL, being 8 percent higher than the same period in 2016, or about 4.23 billion ALL more. Consequently, the expenditures for social security were realized to 7.7 percent higher than the previous year. The actual realization of these items together is at 99.5 percent compared to the plan of the period or 88.3 percent of the annual plan.

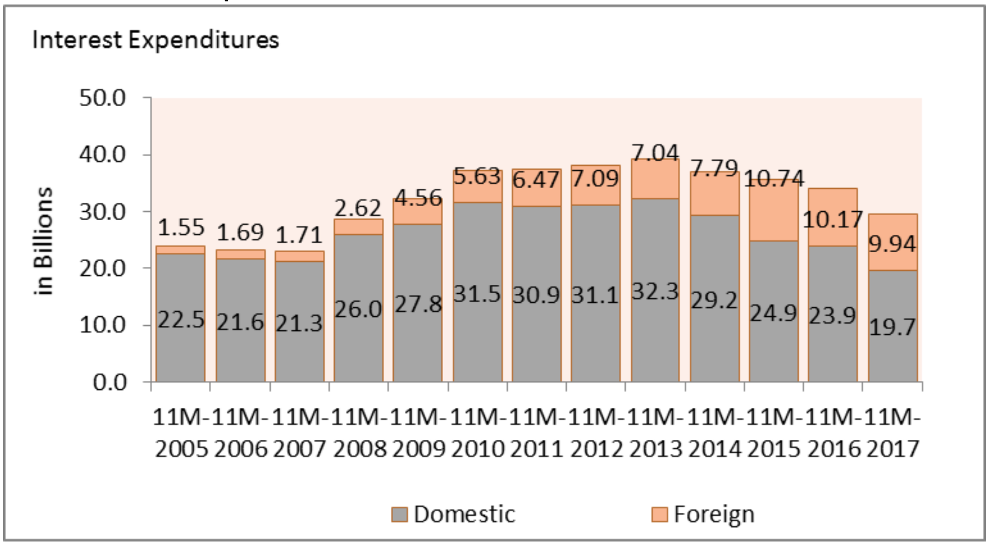
Chart: Wage expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy 2017

Interest expenditures, during the 11th month period of 2017 represented about 8.6 percent of current expenditures. Their actual level resulted about 100 percent of the period's plan. Compared to the revised annual plan, at the 11th month level these expenses were realized about 78.1 percent of it. Meanwhile, compared to the same period of 2016, they resulted 13.1 percent lower, with a nominal saving of about 4.45 billion ALL.

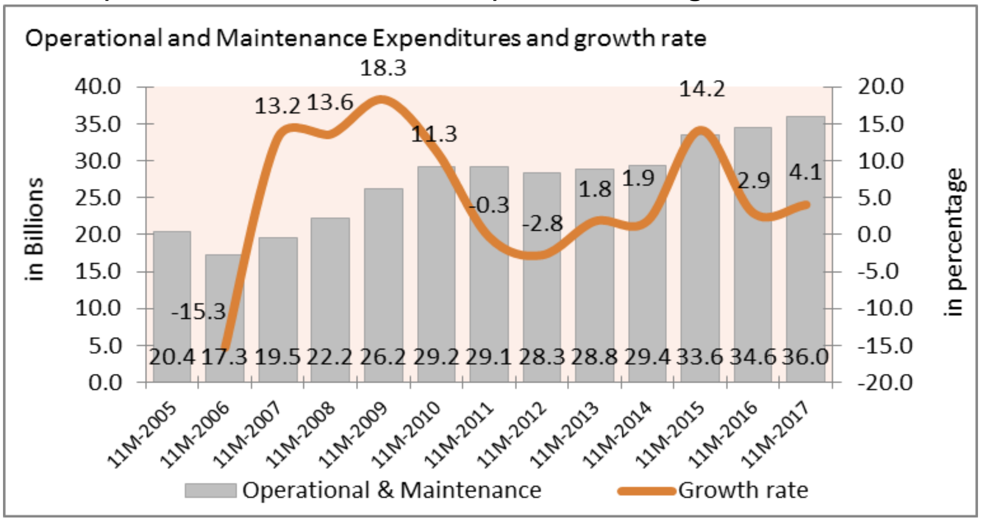
Chart: Interest Expenses (in billion ALL)



Source: Ministry of Finance and Economy 2017

Operational and Maintenance expenditures, during the 11th month period of 2017, registered an actual level of about 36 billion ALL, or about 79.9 percent of the annual plan. Compared to the same period of 2016, this item has been 4.1 percent higher, or 1.4 billion ALL more.

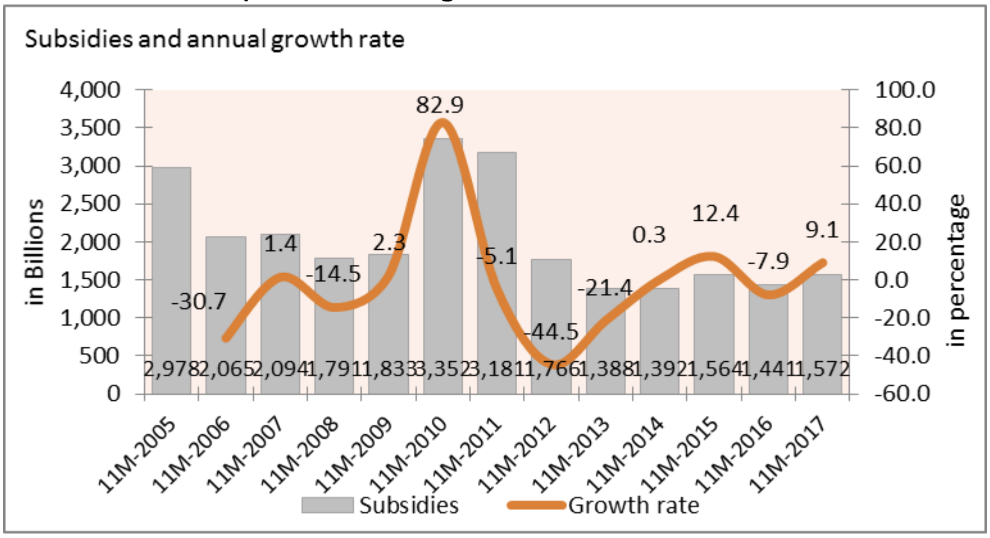
Chart: Operational and Maintenance expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy 2017

Subsidies Expenditures, for the 11th month period of 2017, amounted at 1.57 billion ALL, with a realization of about 81.1 percent or 366 million ALL less than the period's plan. In relation to the revised annual plan, this item is realized about 67.2 percent of it, while for the same period of 2016 this item has been 9.1 percent higher or 131 million ALL more.

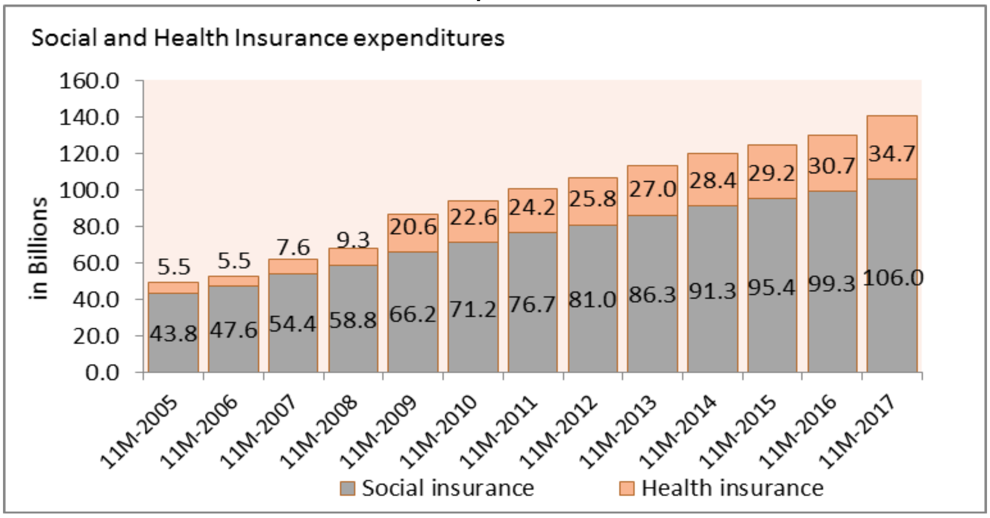
Chart: Subsidies expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy 2017

Expenditures for Special Funds for the 11th month period of 2017 resulted about 144.7 billion ALL, with a realization of 98.7 percent of the period plan. Respectively, social insurance expenditures were realized about 106 billion ALL and health insurance expenditures to 34.7 billion ALL. Compared to the same period of 2016, they resulted respectively about 6.65 billion and 4.04 billion ALL higher.

Chart: Social and Health insurance expenditures (in billion ALL)

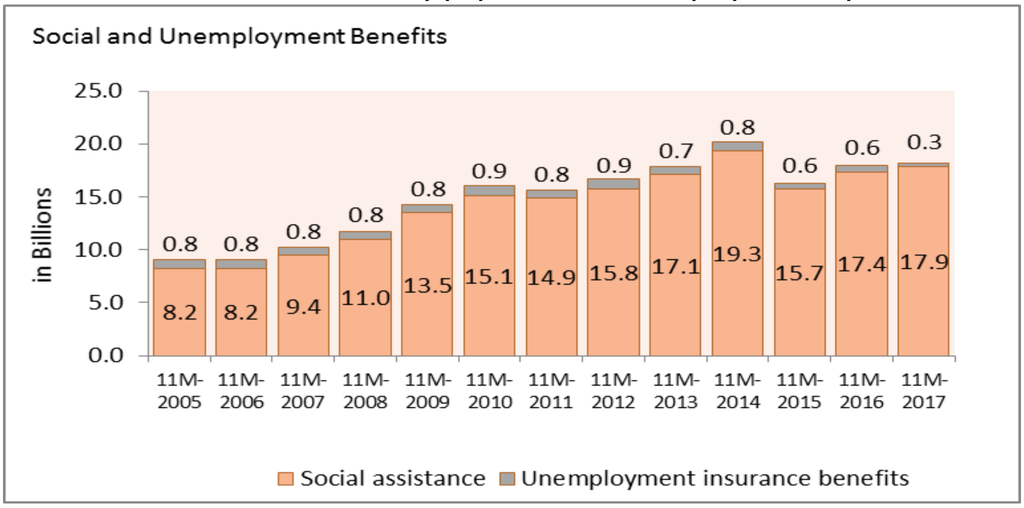


Source: Ministry of Finance and Economy (2017)

Unemployment Expenditures for the 11th month of 2017 registered a level of 70.9 percent of the period's plan or about 53.2 percent of the revised annual plan. Compared to the same period of 2016, expenditures for this item resulted in a decrease of about 50 percent or 319 million ALL in nominal terms.

Expenditures for Social Assistance and Disability Payment (PAK) in the 11th month of 2017 were realized at about 96.3 percent or 694 million ALL less than the plan of the period. In relation to the annual plan they are realized at 87.2 percent of it. Compared to the same period of 2016, expenditures for this item resulted in an increase of 2.98 percent or about 518 million ALL more, in nominal terms.

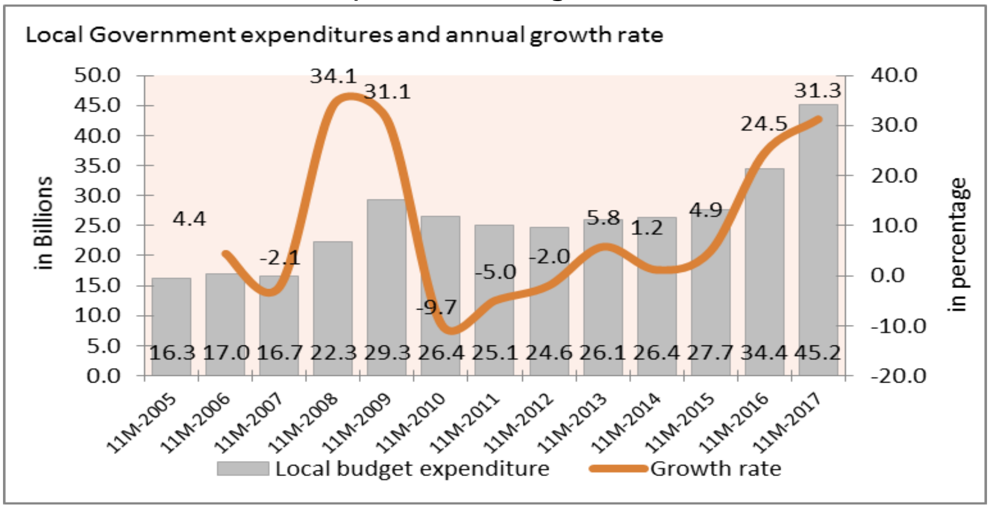
Chart: Social assistance, Disability payment and Unemployment expenditures (in billion ALL)



Source: Ministry of Finance and Economy 2017

Expenditures for Local Government, during the 11th month period constituted about 13.2 percent of current expenditures. Against the same period of 2016, this level resulted about 10.77 billion ALL higher or 31.3 percent more. This increase comes in the framework of strengthening the role of new and reorganized local government units.

Chart: Local Government expenditures and growth rate (in billion ALL)

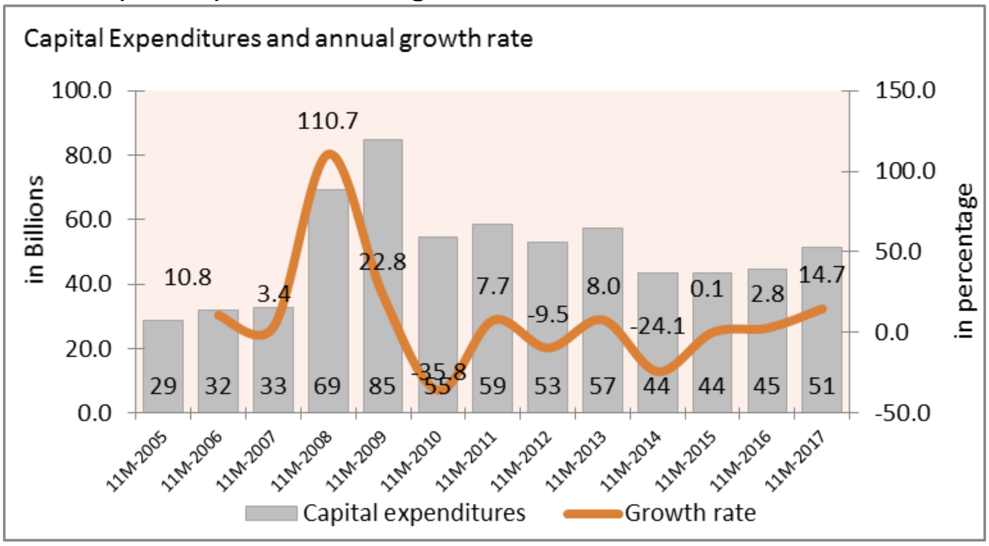


Source: Ministry of Finance and Economy 2017

Capital expenditures, following the analysis of the performance of public investments, for the eleventh months of 2017, are realized at about 51.4 billion ALL or about 86 percent in relation to the funds planned for this period. Respectively, domestic investment projects have a realization of 31.6 billion ALL or about 80.8 percent of the period plan, while those with foreign financing amounted to about 19.3 billion ALL or 96.5 percent of the period plan.

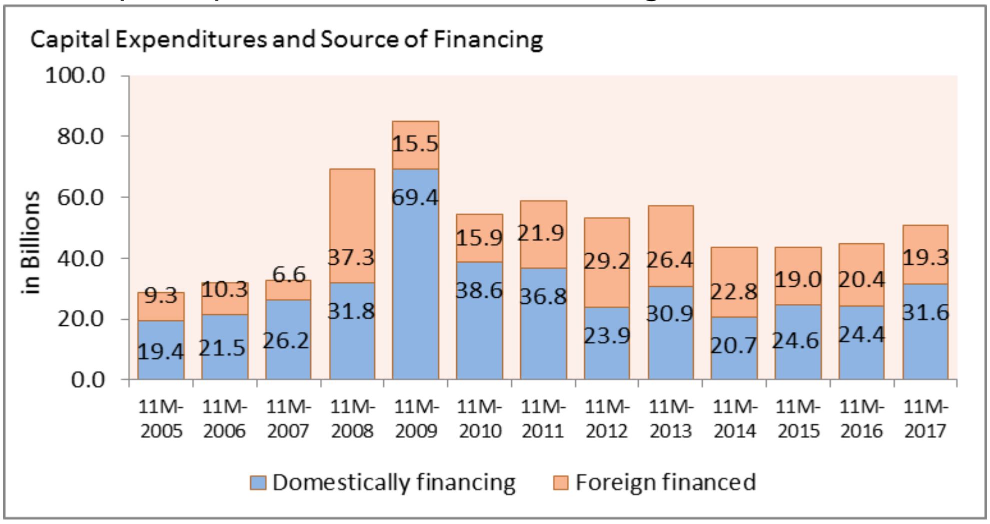
Compared to the annual plan, for the eleventh months of 2017, has been ascertained a total realization of public investments of 51.4 billion ALL or about 70.1 percent of it. Domestic and foreign financing are realized respectively at 65.8 percent and about 78.4 percent of the annual plan.

Chart: Capital Expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy 2017

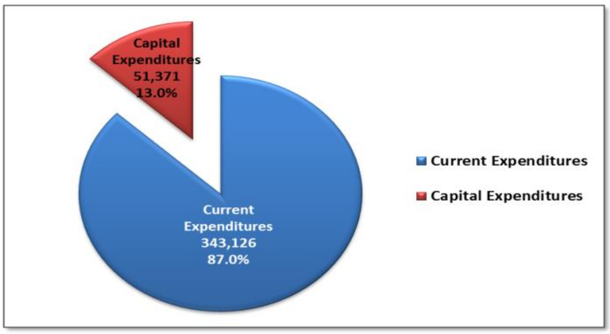
Chart: Capital Expenditures and Source of Financing (in billion ALL)



Source: Ministry of Finance and Economy 2017

The chart below shows the actual allocation of public expenditures for the 11th month period of 2017. Current expenditures for this period constitute the main part of total actual expenditures or 87 percent of them. Meanwhile, capital expenditures constitute the other 13 percent.

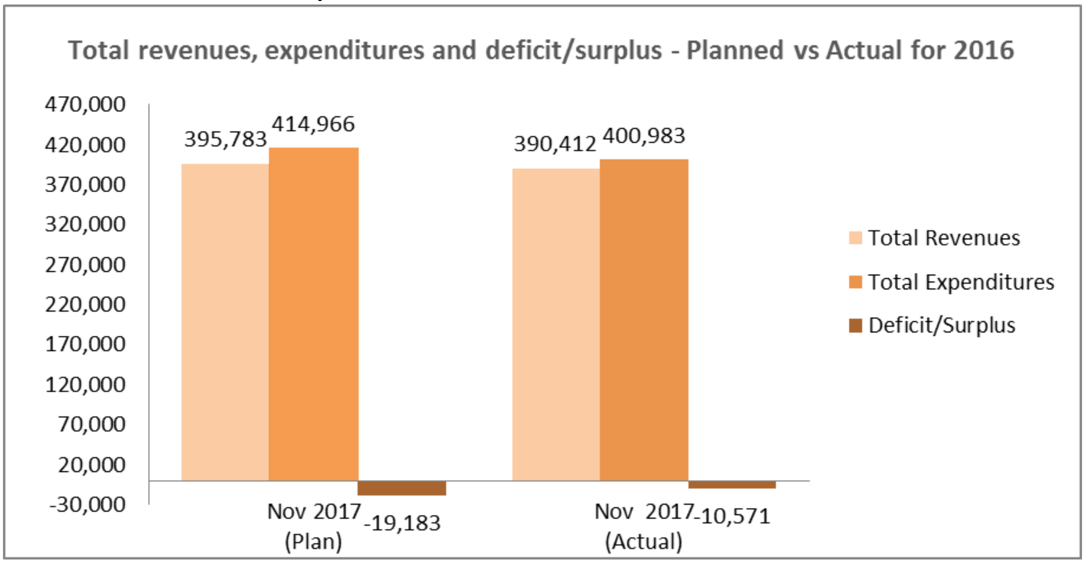
Chart: Capital and Current Expenditures (in million ALL)



Source: Ministry of Finance and Economy 2017

As evidenced by the table of consolidated fiscal indicators, the realization of total expenditures were about 401 billion ALL or 96.6 percent against the period plan. This situation is associated with a budget deficit of approximately 10.6 billion ALL. The below chart shows the positive trends of the main budget indicators.

Chart: Total revenues, expenditures and deficit - Planned vs Actual 2017 (in million ALL



Source: Ministry of Finance and Economy 2017

Total revenues collected for January-October 2017 are ALL 356 billion or 100% of the Official State Budget and ALL 21.4 billion or 6.4% more than the previous year figures. Revenues from grants reached ALL 6.8 billion, ALL 0.9 billion less than the Official State Budget and ALL 2.1 billion less than same period of previews year.

Revenues collected from General Department of Customs (GDC) and General Department of Tax (GDT), including social contributions collected from GDT were ALL 311.9 billion or 100.6% of the Official State Budget, marking a significant improvement in revenue performance compared to year 2016. These revenues are 20.1% of GDP, 0.4% more than year 2016. This is a result of: (i) intensive efforts to reduce the informal economy (ii) better administration in GDC and GDT during year 2017; and (iii) increase of income tax compliance through Self-Assessment.

Table: Total Revenues from Tax & Custom Administration (January-October 2017)

GDT and GDC	*Actual 10-M 2017*	*Official State Budget 10M 2017*	*Actual/Plan*	*+/- %*
Value added tax	114,448	114,178	270	0.2%
Income tax	25,336	25,304	32	0.1%
Excise	37,447	38,194	(747)	-2.0%
Personal income tax	27,016	28,628	(1,612)	-6.0%
National taxes and others	32,908	32,894	14	0.0%
Custom duty	5,330	5,295	35	0.7%
Total "Taxes and Customs"	***242,485***	***244,493***	***(2,008)***	***-0.8%***
Contributions from GDT	69,396	65,610	3,786	5.8%
Total	***311,881***	***310,103***	***1,778***	***0.6%***

Source: Ministry of Finance and Economy 2017

Revenues from General Department of Customs are ALL 129.9 billion or 100.7% of the Official State Budget. Compared to the same period of 2016, there is a surplus for this period of 6.8%, or ALL 8.2 billion.

Table: Revenue performance from General Department of Customs

GDT and GDC	*Actual 10-M 2017*	*Official State Budget 10M 2017*	*Actual/Plan*	*+/- %*
V.A.T on imports	85,135	83,594	1,541	1.8%
Excise	37,447	38,194	(747)	-2.0%
Custom Duty	5,330	5,295	35	0.7%
Royalty	1,909	1,797	112	5.9%
Total	***129,821***	***128,880***	***941***	***0.7%***

Source: Ministry of Finance and Economy 2017

Revenues from V.A.T. on import is ALL 85 billion, ALL 5.2 billion or 6.5% more than the last year, and ALL 1.5 billion or 1.8% more than the Official Budget. *Value Added Tax* (VAT) performance on import was affected by several factors:

- The growth of domestic fuel production has reduced the import of this product and as a result the VAT revenues on imports. Domestic fuel production covered 30.4% of consumption during the 9th month of 2017 compared to 1.7% that was last year. The negative effect due to the amount is mitigated by the effect of international fuel prices. Meanwhile, the rise in fuel prices on international stock markets where these products are quoted has yielded a positive result.
- The increase of electricity imports as a result of decline in domestic production and the discipline of the consumer about their electricity consumption.

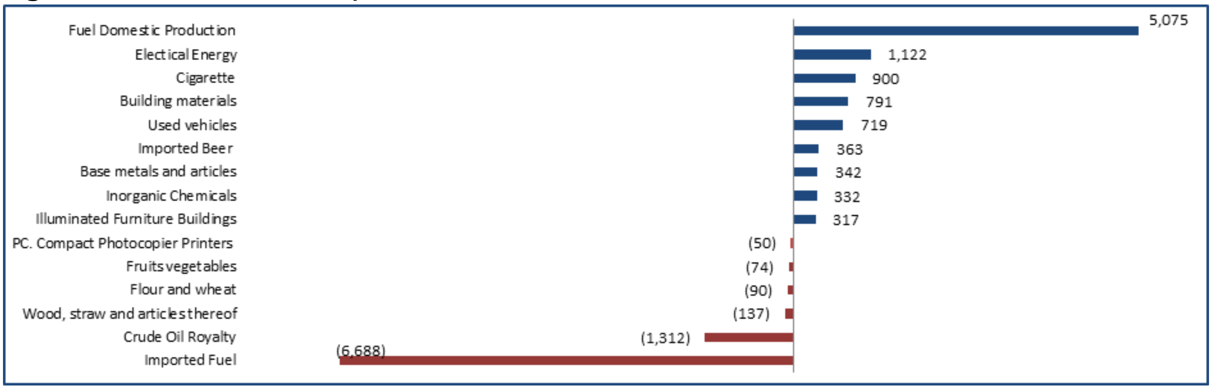
Revenues from Excise Tax is ALL 37.4 billion, ALL 2.9 billion or 8.5% more than the last year, and ALL -747 million or 2% less than the Official Budget. The Excise performance was affected by two main factors:

- The increase of imports and domestic fuel production, where for the period January-October 2017 is +9.5% or 40,390 tons more compared to the 10-month period of 2016.
- Increased import of liquid gas by 20%, import and production of beer by 14%, import of energy drinks by +17%, import and production of wine by +12% and cigarette imports by +5%.

The revenue performance from Royalty is ALL 1.9 billion, 13.7% or ALL 298 million less compared with the last year, and ALL 112 million or 3.8% more than the Official Budget. The main impact has been the increase of the exported quantity of the minerals by 16.7% compared to January-October 2016. Royalty revenues for crude oil decreased by ALL 1.3 billion due to the decline in export volume of which by about 379 thousand tons are destined for domestic processing. Royalty revenues increased by ALL 245 million due of the rise in the price of crude oil in international markets compared to January-October 2016, resulting in an increase in unit rent from ALL 3.1 per kg to ALL 4.1 per kg.

The revenues from Customs Duty were realized at ALL 5.3 billion, 7.4% or about ALL 366 million over the 10 months of 2016, and 0.1% or 35 million ALL more than the plan. Taxed imports have increased by 5.8% compared to January - October 2016. The chart below shows the contribution of main commodities by revenues:

Figure: Main commodities by revenues (+/-) (ALL million)



Source: Ministry of Finance and Economy 2017

Revenues collected from General Department of Tax (including social contributions) for January-October 2017 are ALL 183 billion, ALL 837 million or 0.5% more than the Official Budget, and ALL 13.6 billion or 8.1% more than 2016. The following table shows detailed data according to the tax performance:

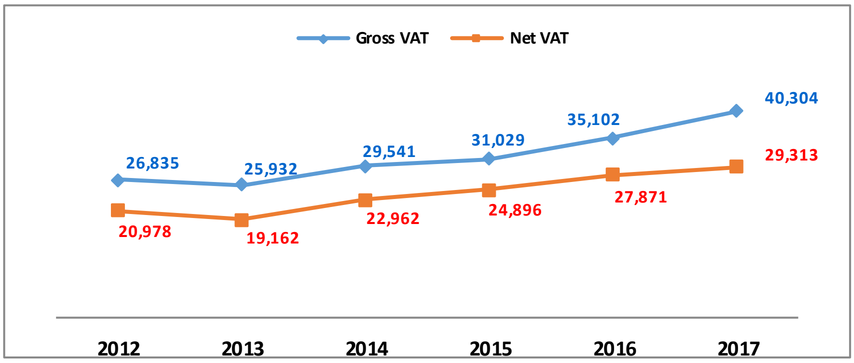
Table: Revenue Performance from General Department of Tax

GDT and GDC	*Actual 10-M 2017*	*Official State Budget 10M 2017*	*Actual/Plan*	*+/- %*
Domestic V.A.T	29,313	30,584	(1,271)	-4.2%
Profit Tax	25,336	25,304	32	0.1%
Personal Income Tax	27,016	28,628	(1,612)	-5.6%
National Tax	30,999	31,097	(98)	-0.3%
Total	***112,664***	***115,613***	***(2,949)***	***-2.6%***
Contributions collected by DGT	69,396	65,610	3,786	5.8%
Total GDT+contributions	***182,060***	***181,223***	***837***	***0.5%***

Source: Ministry of Finance and Economy 2017

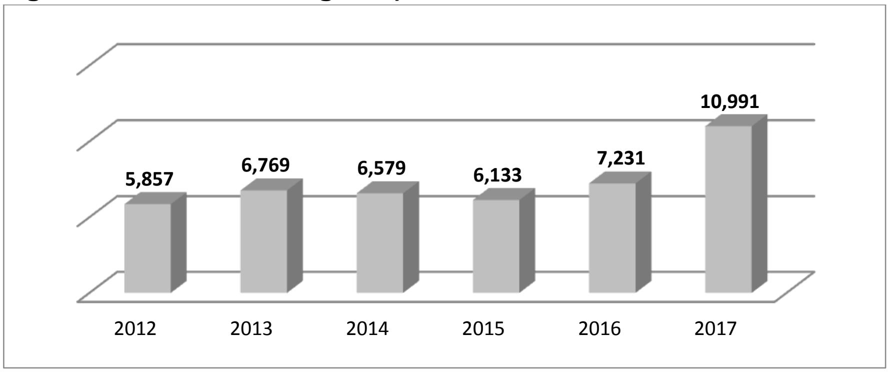
The revenues from domestic VAT are ALL 29.3 billion, ALL 1.4 billion or 5.2% more than 10 months of 2016, and ALL 1.3 billion or 4% less than the Official Budget. The main reason for this declining trend on domestic VAT for January- October 2017 is the increase of VAT refunds due to increased investments and demand for reimbursement by major investors;

Figure: VAT performance during the years



Source: Ministry of Finance and Economy 2017

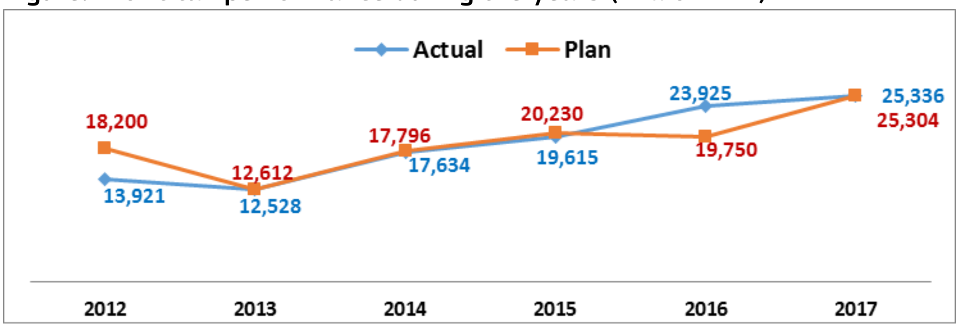
Figure: Vat refunds during the years/million ALL



Source: Ministry of Finance and Economy 2017

The revenues from Profit Tax are ALL 25.3 billion, ALL 1.4 billion or 5.9% more than 10-months of 2016, and ALL 32 million or 0.1% more than the plan 2017. The main factors that have contributed to this result are: (i) the second phase of the campaign against informality; (ii) the increased awareness of the taxpayers in declaring the real transactions; and (iii) intensified communication of the Tax Administration with the taxpayers.

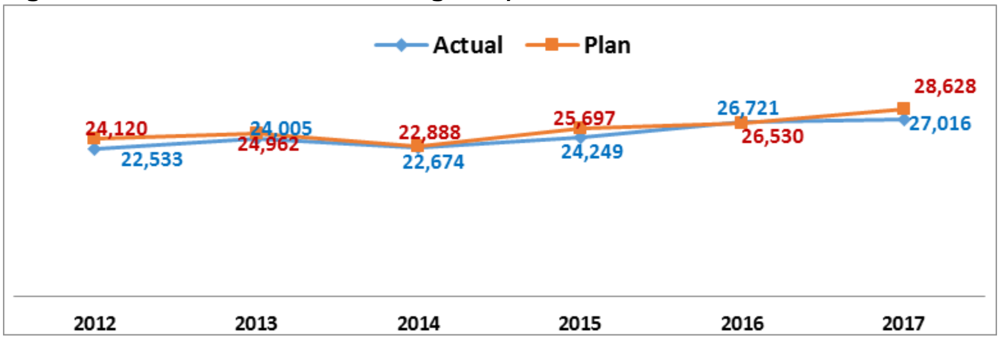
Figure: Profit tax performance during the years (million ALL)



Source: Ministry of Finance and Economy 2017

The revenues from Personal Income Tax were ALL 27 billion, ALL 295 million or 1.1% more than 10-months of 2016, and ALL 1.6 billion or 5.6% less than the plan 2017. The main reason of this deficit was the decrease of revenues from «*Other income taxes at source*» because the revaluation of real estate changed from 15% to 2%. Not achieving the plan is related to the extension of the deadline for the application of the Law on "*Real estate valuation*" with 3-months to 31 May 2017. For this 3-month period, the revaluation proceeds are reflected in the national taxation.

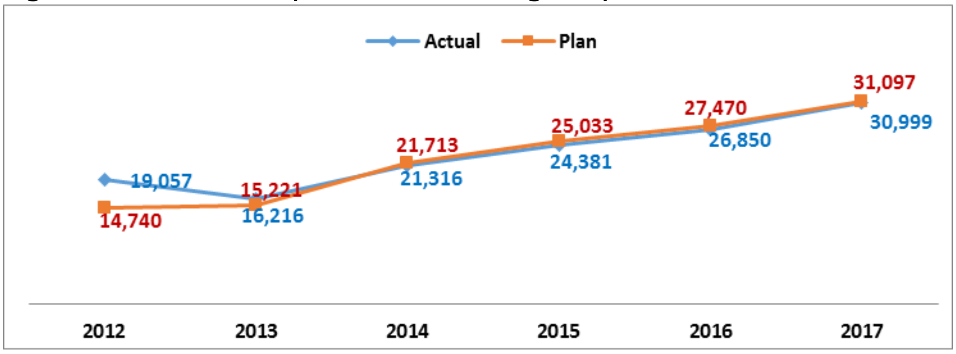
Figure: Personal Income Tax during the years (million ALL)



Source: Ministry of Finance and economy 2017

The revenues from National Taxes were ALL 31 billion, ALL 4.1 billion or 15.5% more than 10 months of 2016, and ALL 98 million or 0.32% less than the plan 2017. The main reason is the increase of revenues from the revaluation of real estate by ALL 3.6 billion.

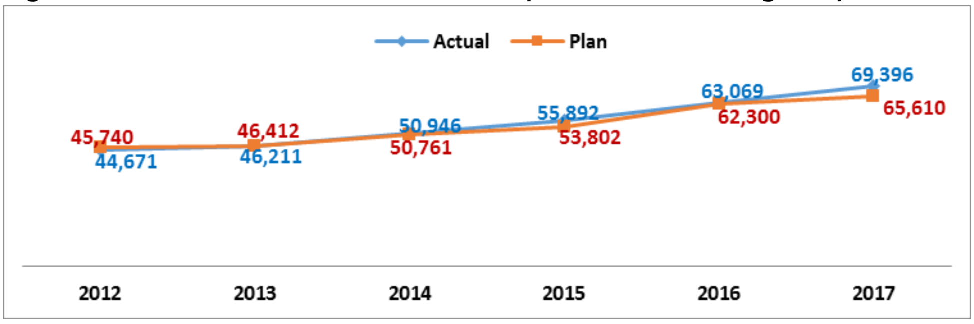
Figure: National Taxes performance during the years (million ALL)



Source: Ministry of Finance and Economy 2017

The revenues from contributions collected from GDT for January-October 2017 were 69 billion, ALL 6.3 billion or 10% more than 10 months of 2016, and ALL 3.8 billion or 5.8% more than the plan 2017. The main reasons were the positive economic situation and the increase of employee's number.

Figure: Contributions collected from GDC performance during the years (million ALL)



Source: Ministry of Finance and Economy 2017

3.3. Medium-term budgetary outlook

Tax revenue forecast for 2018, has considered all relevant factors affecting the budget, including the effect of economic growth, prudent fiscal policies and compliance. The revenue forecast methodology is based on contemporary programming models, suggested and applied by the International Monetary Fund, and including detailed analysis of the factors which affect each tax.

The basic models used are as follows:

- Macroeconomic Forecasts.
- Model based on the analysis of the 60-major imported product groups.
- Template based on the Time Series Analysis.
- The model based on the elasticity coefficient "*Buoyancy*" and "*Effective Tax Rate*" for each tax.

These models are:

- Based on 3-year historical data on imports for 60 main imported product group.
- Analysing the trend of changing imported quantities for the same period in 3 years.
- Considering other factors ascertained during the current year
- Measuring and evaluating the effects based on macroeconomic indicators by analysing the effect on revenue change for a percentage of GDP change ("*Buoyancy*" and "*Effective Tax Rate*" etc.)

For the forecast 2018, macroeconomic factors are combined with key indicators that affect specific taxes. In particular are analyzed quantities and prices of major imported goods and domestic production (covering 90% of the total revenues) by assessing as follow:

- Nominal increase in GDP.
- Expected monetary exchange rate of both main currencies USD and EUR with ALL.
- Prices on stock market that affect revenues from VAT and Royalties.
- Expected import quantities and production.
- Increased excise revenues for fuels, cigarettes, drinks etc., as a result of the expected increase in their quantity, in line with consumption
- Fuel price increase by about 18% compared to August 2017, according to forecasts in the international market.
- Increased revenues from VAT on import and domestic VAT, related with the programming of funds necessary for timely repayment of taxpayers.
- Increased in Profit Tax Revenues, which reflects an increase in the declaration and turnover of economic operators

An important factor that will support and guarantee the realization of the budget revenue program for 2018 will be the deepening of the "Anti-Informal Economy" campaign, which will be accompanied by a broader clarifying and educational campaign for taxpayers. Also, the largest businesses will be on the focus of this campaign, where added value is created and where the largest volume of transactions is carried out.

Revenue Forecast for 2018 aims at further fiscal consolidation, institutional strengthening and improved fiscal administration in support of sustainable economic growth, increasing production growth and exports.

Revenues from GDC and GDT (including contributions collected by GDT) for 2018 are estimated to be ALL 21 billion (6.2%) more than the preliminary 2017, while revenues from GDT and GDC (excluding contributions collected from GDT) are estimated to be ALL 317 billion or ALL 18.6 billion (6.2%) more than the fiscal year 2017.

Table: Total Revenues from Tax & Custom Administration

GDC & GDT	*Actual 2016*	*Plan 2017*	*Preliminary 2017*	*Difference Preliminary 2017 / Plani 2017*	*Official Budget 2018*	*Difference budget 2018-Preliminary 2017*	*Budget 2018/ Preliminary 2017 in %*
V.A.T	131,390	141,200	139,317	-1,883	150,734	11,417	8.2%
Profitt Tax	29,151	29,200	31,700	2,500	33,913	2,213	7.0%
Ecxice	41,896	46,700	46,000	-700	49,900	3,900	8.5%
Personal Income Tax	31,412	36,200	34,000	-2,200	37,300	3,300	9.7%
National Tax	35,794	39,700	41,200	1,500	38,340	-2,860	-6.9%
Custom Duty	6,137	6,400	6,400	0	7,000	600	9.4%
Total	***275,780***	***299,400***	***298,617***	***-783***	***317,187***	***18,570***	***6.2%***
Contributions collected by DGT	74,947	80,050	80,833	783	83,100	2,267	2.8%
Total	***350,727***	***379,450***	***379,450***	***0***	***400,287***	***20,837***	***5.5%***

Source: Ministry of Finance and Economy 2017

Customs revenues are projected based on time series of 60 group products, for a three-year period. This forecast corrects the effects from other external factors in each tax. The same procedure is followed for income tax, taking into consideration the statistical model forecast of expected revenues as well as exogenous factors in any tax impact.

External factors to take into consideration which influence the revenue growth for 2018 are:

➢ Macroeconomic framework

Nominal growth of GDP is applied by analyzing this effect in an integrated method with other factors to any tax in particular, in relation to historical data and projections of prices on international markets, to taxes ad valorem as VAT, Royalties and Custom Duty.

In the forecast are included, the following factors:

- Nominal GDP growth.
- The average exchange rate Euro - ALL and USD-ALL.
- Brent prices of crude oil and other minerals.

➢ The effects of fiscal policy

Revenues from fiscal policy are expected to be as follows:

- Review of the reduction of the V.A.T threshold, which will have an additional revenue effect of about ALL 1-1.5 billion for 2018. In fact, the purpose of revising this threshold is not to provide additional income, as their projected amount compared to the number of small businesses is small. The main purpose of this initiative is mainly to market formalization and verification of the transaction chain to the final customer.
- Increase excise tax on cigarettes at ALL 5,850 per 1000 cigarettes in order to further align with EU Directive 2011/64. This rescheduling is aimed to maintain equilibrium at the level of fiscal burden in line with the neighboring countries. This measure is expected to avoid the phenomenon of smuggling and illegal trade in border regions. The additional income is expected to be about ALL 1 billion.

Revenue forecast for each tax in 2018

VAT revenues are estimated to be realized at ALL 150.7 billion, ALL 11.4 billion more than the preliminary 2017 (or 8.2%).

The main source of additional revenue from VAT for 2018 is expected to be as follows:

- The result of economic growth.
- The increase in the volume of international trade and increase of the international oil prices.
- The result of the anti-informality campaign and strengthening the interaction between tax and customs administrations to control the chain of transactions and collection of this tax in the link that is created.

Excise revenues are estimated to increase by ALL 3.9 billion or 8.5% more than the preliminary 2017, with a total value of ALL 49.5 billion. The main factors, which influence the forecast growth in revenues from excise tax, are as follows:

- The increase import of excise goods.
- More rigorous control of excise subjects and further disciplining of the procedures for obtaining exemptions and reimbursements from this tax.

Revenues from Profit tax are estimated to be realized at ALL 33.9 billion or 7% more than fiscal year 2017, as a result of increased flow statement and economic operator's turnover.

Revenues from Personal Income Tax are estimated to be realized at ALL 37.3 billion, or 9.7% more than preliminary 2017. Estimating the revenues from personal income tax is taken in to consideration several factors such as:

- The increase in the number of the active contributors based on the performance of 2017.
- Expectations for the further formalization of income from employment.

Revenues from National Taxes are estimated to be realized at ALL 38 billion, ALL 2.9 billion or 7% less than the fiscal year 2017. This decline in the National Tax revenues is related to the 2017 reflection in this item of income from the revaluation of the property's (one off revenue) for about ALL 3.6 billion ALL, which will not be in 2018.

Revenues from Custom Duties are estimated to be realized at ALL 7 billion, ALL 600 million or 9.4% more than fiscal year 2017. Main impact in this result derived from the increase of imported goods.

Revenues from Social & Health Contributions collected from GDT are considered to be realized at ALL 83.1 billion, 3% more than fiscal year 2017. Generating additional revenue for contributions will be affected by increased tax administration performance control.

The Revenue Forecast Model for 2018 compromises the Fiscal Risks for 2018 as follow:

- *The Increase by about 18% of fuel prices*. Forecasts by specialized international agencies minimize opportunities for this increase not to occur at this level, but anyway in revenue planning, compensation for any possible price oscillation has been compensated, through the maximum discipline of exemptions and reimbursements beyond legal norms and forecasts.
- *An increase of 200 tons of cigarette imports* with an effect on VAT, Excise and Taxes of 1.8 billion ALL is forecast, based on the performance of 2017. This forecast may not be realized at 100% of it and can be the risk of increasing the import of cigarettes by 100 tons and not by 200 tons as predicted, with a negative effect of around ALL 0.4 billion.
- Imports and domestic fuel production are projected to increase by 7% based on 2017 performance. If not realized, this increase could go up to 5% with a negative effect on revenues by ALL -0.5 billion.

Table: Categories of Risks by Tax Type

Risks	*Negative Effects in Revenues*			
	Excise	**Custom Duty**	**VAT**	**Total**
Price increase for crude oil not 18% as predicted but 10%			-400	-400
Increase in Fuel (Imported+domestic production) not by 7% according to 2017 but 5%	-289		-213	-502
Increased imports of cigarettes rather than 200 tones as specified but +100 tons	-274	-11	-76	-362
Total	***-563***	***-11***	***-689***	***-1263***

Source: Ministry of Finance and Economy 2017

Fiscal Package 2018

The Fiscal Package 2018 presents some changes to the fiscal legislation, as listed below:

Value Added Tax

- Reduction of V.A.T registration threshold to ALL 2 million. This change forecast an effect of ALL + 1-1.5 billion for 2018. The arguments that support the policy change relate mainly to the formalization and control of the transaction chain from large companies to small business, aiming to formalize the flow of goods and services and a comprehensive coverage of VAT. This change comes in the spirit of creating a more honest and competitive environment of doing business.
- Reduction on Value Added Tax Rate at 6%, to be applied to any supply of services provided within certified accommodation structures "Five Star Hotel, Special Status" as defined in the legislation of the tourism sector.

Excise Law

- The level of cigarette excise tax for 2018 has been revised, from 5750 ALL/ 1000 pieces that was envisaged in the Excise Law, to 5850 ALL/1000 pieces. This change is based on the following arguments:
    - Need to balance the fiscal burden of cigarettes with the countries of the region, in order to avoid their illicit trade.
    - Further approximation with EU Directive 2011/64 which stipulates that from 1 January 2014 the minimum excise duty rate for cigarettes will be at least 60% of the average weighted sales price for cigarettes.
    - Increasing excise duty on cigarettes is one of the policies used to curb and reduce the consumption of cigarettes by the population as a product with adverse health effects, raising their selling price. An argument that comes in line with the directive's line.
- Abolition of excise tax on energy drinks; placement of excise ton of ALL 2 per kg for bitumen sand and liquid nicotine for charging 101/ ml.

Local Taxes

- Changes in the taxation method of buildings by changing the methodology of calculation of this tax, from a fixed tax based on the surface of the building, expressed in square meters, to a percentage tax which is applied on the market value of the building;
    - 0.05% for the building used for housing;
    - 0.2% for the building used for economic activity;

- 30% of the respective tax rate for the entire construction site, for which the developer is equipped with a construction permit and has failed to complete it according to the deadline specified in the act approving the request for a construction permit.

- ➢ Establishment of a Fiscal Cadaster (immovable property registry) that will support and increase the efficiency of collecting the building tax;
- ➢ Reclassification of the table tax, in order to have a fairer tax setting referring to the type of table (simple, illumined, electronic).

Income Tax
- ➢ Exclusion from the Profit Tax of "Hotel / Resort, four- and five-star accommodation structures", as defined by the legislation in the tourism sector, internationally recognized as "brand name". The exemption from the profit tax applied for a period of 10 years for those structures, which benefit from the authorization by the Council of Ministers until December 2024. The effects of the exemption begin at the time of the economic activity of the accommodation structure and not later than 3 years after receiving special status.
- ➢ Reduction of the profit tax from 15% to 5% for legal entities that exercise activity in the field of software production.

Custom Tariffs
Reduction of certain customs duties applied to imports, related to the products used in the field of information technology. This reduction comes as part of the obligations stemming from the SAA. Responding to the EU's requirement, that in the context of fulfilling the commitments Albania has to the WTO to support the list of products to be traded without a customs tariff, thus making it part of the process of expanding the list of products of the ITA agreement.
In the medium term horizon, 75% to 90% of the Central Government gross financing needs will be based on domestic sources. The domestic sources shall remain the main source of financing, in order to support the development of the domestic market and to avoid any possible implications in the macroeconomic indicators that might raise due to the growth of foreign currency denominated debt beyond the thresholds indicated by the debt sustainability analysis (foreign currency denominated debt/total debt not more than 60%)
Short-term securities will be used mainly to refinance the existing maturing securities and for active liquidity management purposes. Meanwhile, through long-term securities, it will be aimed to finance domestic net financing, in accordance with the market constrains. The domestic borrowing structure will be flexible in terms of government securities selection, depending on the market conditions *(the level of demand, interest rates, etc.)*, in order to ensure an optimal tradeoff between cost and risks.
Foreign financing sources will be used as a complement to the domestic sources and will contribute in the cost optimization of the debt portfolio *(taking into account that these sources are well-diversified and they offer various financing possibilities, not only through commercial terms, but also through concessional ones).*
External financing will cover the annual borrowing needs of the Central Government, from 10% to 25%, and other than financing the implementation of the existing and new priority projects of the government, it will be used if it is needed to enable:
- The required financing when the domestic borrowing exceeds market constrains;
- The government foreign currency requirements in order to cover external debt service;
- The reduction of borrowing pressure on the domestic market, in order not to limit the private sector lending;
- The presence of Albania in the international capital markets, on opportunistic basis.

For project implementation purposes and budgetary support external borrowing will rely mostly on bilateral and multilateral sources *(mostly available with concessional and semi-*

concessional terms). Meanwhile, for the abovementioned purposes are expected mostly to be used private sector sources in various ways of financing, including also a possible issuance of Eurobond in capital markets during 2018 and 2020 on an opportunistic basis.

3.4. Structural balance (cyclically adjusted fiscal balance)

Standard methodologies and techniques were deployed to gauge cyclically adjusted fiscal balance in the case of Albania. However, due to data limitations their relatively low level of disaggregation and relatively short time span, the following analysis is prone to several caveats and limitations and therefore should be considered with caution.

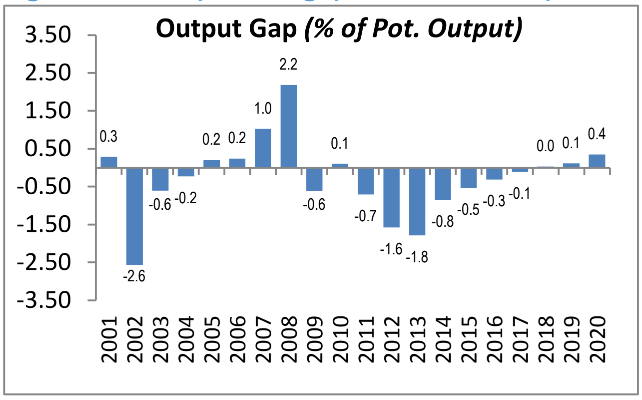
Estimating potential GDP and output gap

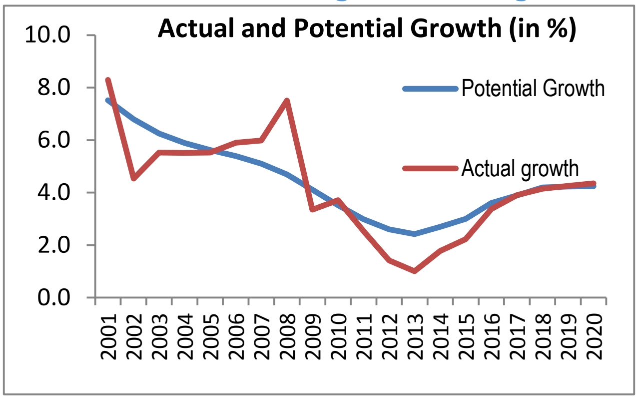
The HP filtering technique was deployed to estimate a series of potential GDP. Applying the HP-filter directly on the actual level of GDP or its log-level in order to extract a series for the potential GDP, yielded some economically counterintuitive results related to the output gap (OG). Specifically, we obtained a positive output gap for 2009, 2010 and 2011. Despite a restructuring process taking place in the economy since the hit from the global financial crisis (2009), which probably led to lower output potential, it seemed not plausible to experience positive output gaps during these years.

Therefore, an HP-filter was applied on the actual annual real growth by considering the most advocated values for the parameter lambda in the case of annual data, namely $\lambda = 100$; $\lambda = 30$; $\lambda = 6.5$. The potential GDP growth was then derived as an average of the HP-filtered series based on those three different lambda parameters. Based on the obtained potential growth, the level of potential GDP was then derived and the output level is calculated accordingly. The projections of IMF WEO (October 2017) for 2019 - 2021 were utilized to address the end-point problem common with this filtering technique.

The output gap $OG_t = \dfrac{GDP_{t,actual} - GDP_{t,potential}}{GDP_{t,potential}}$ is presented on the left side of figure below.

Figure: Output gap (left), potential and actual growth (right)





Source: Ministry of Finance and Economy

The results indicate that the actual output has been below potential for the 2002 – 2003 period and remained almost at its envisaged potential level during the 2004 - 2006. The economy started to operate considerably above the potential in 2007, while significantly overheating in 2008. Since the hit of the global crises in 2009 the economy has been operating below its potential until 2016. The trough was in 2013 and from then the economy has been gradually closing the negative output gat and converging to its potential. In 2017 the economy seems to have been operating almost at its potential and it is foreseen to remain around its potential for the medium term ahead, though in 2020 some first signs of overheating could possibly take place.

Estimating elasticity and budget sensitivity to output gap

After removing one-off items present in the fiscal indicators, the revenues' and expenditures' elasticity's are estimated based on both the disaggregated (OECD 2005 approach) and aggregated approach (IMF 2010 approach). However, the final overall elasticity obtained from each approach were quite similar. More specifically, the overall revenue elasticity derived from specific revenue items' elasticity's estimated through the disaggregated approach was 1.14, while the revenue elasticity estimated from the aggregated approach was 1.46.[15] Total revenues were adjusted for cyclical effects by applying the average elasticity obtained from both approaches, namely $\varepsilon_{R,Y} = average(1.14, 1.46) = 1.30$.

Regarding the expenditure's elasticity, they also didn't differ from the zero level. The regression analysis yielded expenditures elasticity with a negative sign based on both approaches but none of them was significant at conventional levels, implying an elasticity coefficient equal to zero, $\varepsilon_{G,Y} = 0$. Therefore, total expenditures were not adjusted for cyclical effects. Applying straightforward the formula of the budget balance's sensitivity to the output gap (or the so called semi-elasticity) we obtained the following value:

$$\sigma_B \equiv r(\varepsilon_{R,Y} - 1) - g(\varepsilon_{G,Y} - 1) = 0.256(1.30 - 1) - 0.260(0 - 1) = 0.336$$

Where: ***r = 0.256*** is the average ratio of total revenues to GDP (excluding one-offs) for the last five years (2012 – 2016); g = 0.260 is the average ratio of primary expenditures to GDP (excluding one-offs) for the last five years (2012 – 2016). The estimated parameter of budget sensibility implies that for each percentage point of negative (positive) output gap the overall primary fiscal balance will deteriorate (improve) by 0.336 percentage points of potential GDP.

Calculating the cyclically adjusted fiscal balance and assessing the fiscal policy stance

Based on estimated output gaps ***(OG)*** and the budget sensibility parameter ***(*** σ_B ***)*** the cyclical component of the primary fiscal balance ***(CPB)*** in terms of potential GDP is calculated as: $CBT_t = \sigma_B * OG_t$. Whereas, the automatic stabilizers are defined as the change in ***CPB*** in two consecutive years ***(AS)***, as: $AS_t = CPB_t - CPB_{t-1}$

The cyclically adjusted primary balance ***(CAPB)*** is calculated as the difference between the actual primary fiscal balance ***(PB)*** and its cyclical component ***(CPB)***: $CAPB_t = PB_t - CPB_t$. The overall cyclically adjusted balance ***(CAB)*** is derived after subtracting interest expenditures ***(INT)*** to the cyclically adjusted primary balance: $CAB_t = CAPB_t - INT_t$.

Fiscal impulse ***(FI)*** in terms of potential GDP is the change of the cyclically adjusted primary balance at each year relative to the previous one: $FI_t = CAPB_{t-1} - CAPB_t$

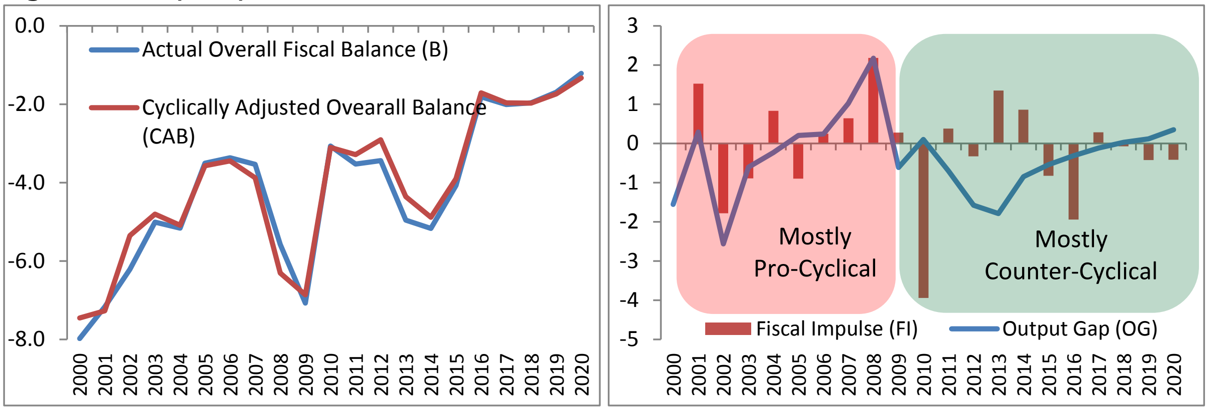
Based on the direction of fiscal impulse (tightening or easing) and output gap (negative or positive) a simple assessment as regards the nature of fiscal policy stance is presented, whether it has been pro-cyclical, counter-cyclical or neutral. The obtained results are presented in the following table and graph.

[15] Due to lack of data and relatively short series, in the case of disaggregated approach some of the estimated elasticity / coefficients were not significant at conventional levels and several assumptions were imposed.

Table: Fiscal policy stance

Year	Output Gap (OG)	Actual Overall Fiscal Balance (B)	Actual Primary Fiscal Balance (PB)	Cyclical Primary balance (CPB)	Cyclically Adjusted Primary balance (CAPB)	Interest Expenditures (INT)	Cyclically Adjusted Ovearall Balance (CAB)	Automatic Stabilizers (AS)	Fiscal Impulse (FI)	Fiscal stance relative to output gap
2000	-1.6	-8.0	-2.1	-0.5	-1.6	5.9	-7.5	-	-	
2001	0.3	-7.2	-3.0	0.1	-3.1	4.2	-7.3	0.6	1.5	Pro-cyclical
2002	-2.6	-6.2	-2.2	-0.9	-1.3	4.1	-5.3	-1.0	-1.8	Pro-cyclical
2003	-0.6	-5.0	-0.6	-0.2	-0.4	4.4	-4.8	0.7	-0.9	Pro-cyclical
2004	-0.2	-5.2	-1.3	-0.1	-1.2	3.9	-5.1	0.1	0.8	Counter-cyc
2005	0.2	-3.5	-0.3	0.1	-0.3	3.2	-3.6	0.1	-0.9	Pro-cyclical
2006	0.2	-3.4	-0.5	0.1	-0.6	2.9	-3.4	0.0	0.2	Pro-cyclical
2007	1.0	-3.5	-0.9	0.3	-1.2	2.7	-3.9	0.3	0.6	Pro-cyclical
2008	2.2	-5.6	-2.7	0.7	-3.4	2.9	-6.3	0.4	2.2	Pro-cyclical
2009	-0.6	-7.1	-3.9	-0.2	-3.7	3.2	-6.9	-0.9	0.3	Counter-cyc
2010	0.1	-3.1	0.3	0.0	0.3	3.4	-3.1	0.2	-3.9	Counter-cyc
2011	-0.7	-3.5	-0.4	-0.2	-0.1	3.2	-3.3	-0.3	0.4	Counter-cyc
2012	-1.6	-3.4	-0.3	-0.5	0.2	3.1	-2.9	-0.3	-0.3	Pro-cyclical
2013	-1.8	-5.0	-1.7	-0.6	-1.1	3.2	-4.4	-0.1	1.4	Counter-cyc
2014	-0.8	-5.2	-2.3	-0.3	-2.0	2.9	-4.9	0.3	0.9	Counter-cyc
2015	-0.5	-4.1	-1.4	-0.2	-1.2	2.7	-3.9	0.1	-0.8	Pro-cyclical
2016	-0.3	-1.8	0.7	-0.1	0.8	2.5	-1.7	0.1	-1.9	Pro-cyclical
2017	-0.1	-2.0	0.4	0.0	0.5	2.4	-2.0	0.1	0.3	Counter-cyc
2018	0.0	-2.0	0.6	0.0	0.5	2.5	-2.0	0.0	-0.1	Counter-cyc
2019	0.1	-1.7	1.0	0.0	1.0	2.7	-1.7	0.0	-0.4	Counter-cyc
2020	0.4	-1.2	1.5	0.1	1.4	2.7	-1.3	0.1	-0.4	Counter-cyc

Figure: Fiscal policy stance



This simple empirical analysis shows that during the 2000 – 2008 period fiscal policy in Albania has been mostly pro-cyclical, relative to the dynamics of the economy, therefore amplifying its cyclical movements. The pro-cyclicality of fiscal policy has been particularly obvious in 2002 and 2008. As the performance of the economy sharply shifted from a positive output gap in 2001 to a considerably negative gap in 2002, the cyclically adjusted primary balance contracted significantly in 2002 relative to the previous year. The opposite happened in 2008 when fiscal impulse peaked to 2.2 percentage points of GDP while the economy was clearly overheating with a positive output gap of the same magnitude.
Since the hit of the global crises in 2009, the discretionary component of fiscal policy seems to have had mostly a counter-cyclical nature, therefore playing its due role of stabilizing the economy and mitigating the cyclical movements. The same countercyclical path of fiscal policy is broadly foreseen for the medium term ahead as well.

3.5. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

During the 9 months of 2017, public debt was characterized by positive developments, being in line with the Budget Law for 2017 and Debt Management Objectives. In this regard, progress has been made mainly in terms of financing government needs, maintaining acceptable ratios between cost and risks and undertaking activities to further develop the primary market for government securities.
In accordance with the Budget Law, debt management during 2017 has successfully refinanced existing debt, managed liquidity needs, and at the same time has financed the planned budget deficit. Borrowing was realized through domestic and external sources, respectively at the levels of 68% and 93% of the annual borrowing plan16.
In compliance with Debt Management Objectives, the Budgetary Central Government Debt portfolio was managed to further reduce risks exposure, while maintaining costs under control, as well as it was continued with the activities that aim the further development of the primary market.

Budgetary Central Government and Central Government Guaranteed Debt Development
At the end of September 2017, the Budgetary Central Government and Central Government Guaranteed Debt amounted to ALL 1,075.3 billion or 69.14% of GDP[17]. Compared with the same period in 2016, the ratio of Budgetary Central Government and Central Government Guaranteed Debt to GDP decreased by 3.3 percentage points.
In absolute terms, Budgetary Central Government Debt increased by ALL 12.2 billion compared to the end of 2016, of which ALL 13.5 billion is attributed to the increase of domestic debt and ALL 1.3 billion to the decrease of external debt. External debt decline is attributed to the appreciation of the domestic currency toward the other currencies that compose external debt portfolio *(mostly toward USD and EUR).* The increase of debt in absolute terms is in compliance with the Budget Law for 2017 and the Macro-Fiscal objectives for a gradual reduction of the Debt to GDP ratio in the medium and long run.

Table: Stock of total, domestic and external debt in million ALL

	2012	2013	2014	2015	2016	Sep-2017
Total Debt Stock (I+II)	827,981	884,692	977,102	1,042,272	1,065,709	1,075,269
I. Domestic Debt Stock	470,358	520,786	564,673	551,374	561,120	574,544
-Government	454,695	500,868	538,641	520,936	530,834	544,371
-Guaranteed	15,663	19,918	26,033	30,439	30,286	30,172
II. External Debt Stock	357,622	363,906	412,429	490,898	504,589	500,725
-Government	319,833	332,500	383,922	465,306	481,407	480,120
-Guaranteed	37,790	31,406	28,507	25,591	23,182	20,605
GDP	1,332,811	1,350,053	1,395,305	1,427,799	1,472,791	1,555,202
Total Debt Stock/GDP	**62.12%**	**65.53%**	**70.03%**	**73.00%**	**72.36%**	**69.14%**
Domestic Debt Stock/GDP	**35.29%**	**38.58%**	**40.47%**	**38.62%**	**38.10%**	**36.94%**
External Debt Stock/GDP	**26.83%**	**26.95%**	**29.56%**	**34.38%**	**34.26%**	**32.20%**

Source: Ministry of Finance and Economy (2017)

During the nine months of 2017, the Government issued ALL 265.3 billion securities in the domestic market, of which ALL 251.5 billion enabled the refinancing of existing securities. Net financing in the domestic market was achieved entirely through long-term government securities, while was accompanied with the maturity of short-term securities. This financing strategy has contributed notably in the improvement of the domestic debt structure by further reducing the risks exposure. On the other hand, has managed to keep an optimal balance

[16] Referring to the Law No. 130/2016, date 15.12.2016, "On the budget of 2017".
[17] GDP on annual basis, as referred in the Macro-Fiscal Framework 2018-2021, dated 26.10.2017.

between cost and risks, by taking advantage by the low level of interest rates persisting also during 2017.

Table: Domestic Borrowing

Gross Borrowing	9m. 2016		9m. 2017	
	Amount (in billion ALL)	% of Total	Amount (in billion ALL)	% of Total
Domestic Sources	273.0	100.0%	265.3	100.0%
- T. Bills	201.3	73.8%	179.8	67.8%
- Bonds	71.6	26.2%	85.5	32.2%

Source: Ministry of Finance and Economy (2017)

Budgetary Central Government and Central Government Guaranteed Debt Composition
Regarding the portfolio composition, it was managed to increase the weight of long-term instruments, which is in line with the strategic objective for the reduction of refinancing and interest rate risk. During this period, long-term debt increased by 1.0 percentage point, mainly due to the increase in weight of long-term domestic debt instruments *(mainly the 7 and 10-year bond).*

Table: Stock composition

	2015		2016		Sep-2017	
	mln ALL	% of total	mln ALL	% of total	mln ALL	% of total
I. Maturity	**1,042,271**	**100.0%**	**1,065,709**	**100.0%**	**1,075,269**	**100.00%**
i. Short-term by original maturity	**223,824**	**21.5%**	**239,694**	**22.5%**	**231,626**	**21.5%**
- Government Securities	223,824	21.5%	209,409	19.6%	201,454	18.7%
- Loans	0	0.0%	30,286	2.8%	30,172	2.8%
ii. Long-term by original maturity	**818,447**	**78.5%**	**826,015**	**77.5%**	**843,643**	**78.5%**
- Government Securities	358,887	34.4%	382,279	35.9%	403,082	37.5%
- Loans	459,560	44.1%	443,736	41.6%	440,560	41.0%
II. Currency	**1,042,271**	**100.0%**	**1,065,709**	**100.0%**	**1,075,269**	**100.0%**
- Domestic Currency	526,875	50.6%	540,614	50.7%	549,125	51.1%
- Foreign Currency	515,396	49.4%	525,095	49.3%	526,144	48.9%
III. Residency	**1,042,271**	**100.0%**	**1,065,709**	**100.0%**	**1,075,269**	**100.0%**
- Domestic Creditors	566,060	54.3%	583,933	54.8%	597,093	55.5%
- Foreign Creditors	476,211	45.7%	481,776	45.2%	478,176	44.5%
IV. Interest type*	**1,011,833**	**97.1%**	**1,035,424**	**97.2%**	**1,045,096**	**97.2%**
- Fixed rate	691,971	66.4%	738,313	69.3%	755,253	70.2%
- Variable Rate	319,862	30.7%	297,111	27.9%	289,843	27.0%
V. Concesionality*	**1,011,833**	**97.1%**	**1,035,424**	**97.2%**	**1,045,096**	**97.2%**
- Concesional Rate	235,862	22.6%	252,257	23.7%	249,906	23.2%
- Marketable Rate	775,971	74.5%	783,167	73.5%	795,191	74.0%

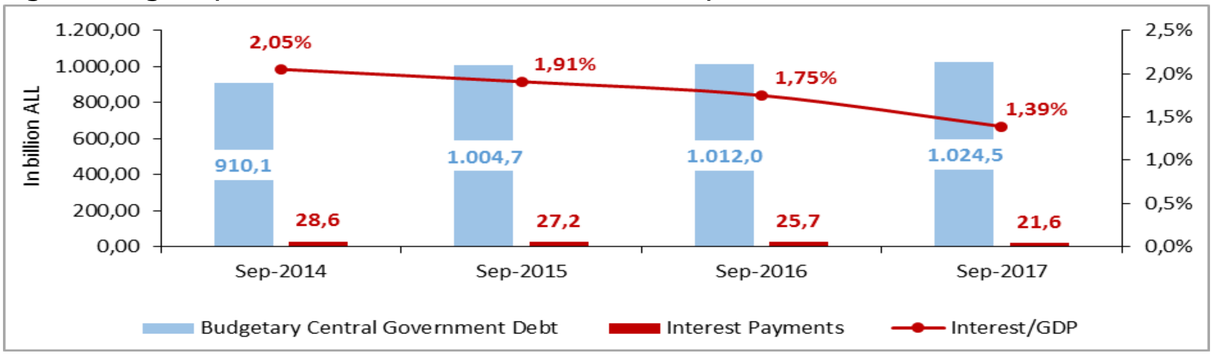
** Domestic Central Government Guaranteed Debt is excluded*
Source: Ministry of Finance and Economy (2017)

Cost and risks
During this period, Budgetary Central Government Debt portfolio was managed progressively, by further reducing risk exposure and maintaining cost under control.
The debt structure improved mainly in terms of reducing the refinancing and interest rate risk. Risk mitigation was conducted mainly by increasing the share of long-term debt and reducing the share of the variable rate instruments.

Cost

During 2017, it is worth mentioning the reduction of debt service, mainly due to the drop in interest rates during the last three years. Compared with the same period of the last year, interest expenses dropped by ALL 4.1 billion, and reached the level of ALL 21.6 billion or 1.39% of GDP.

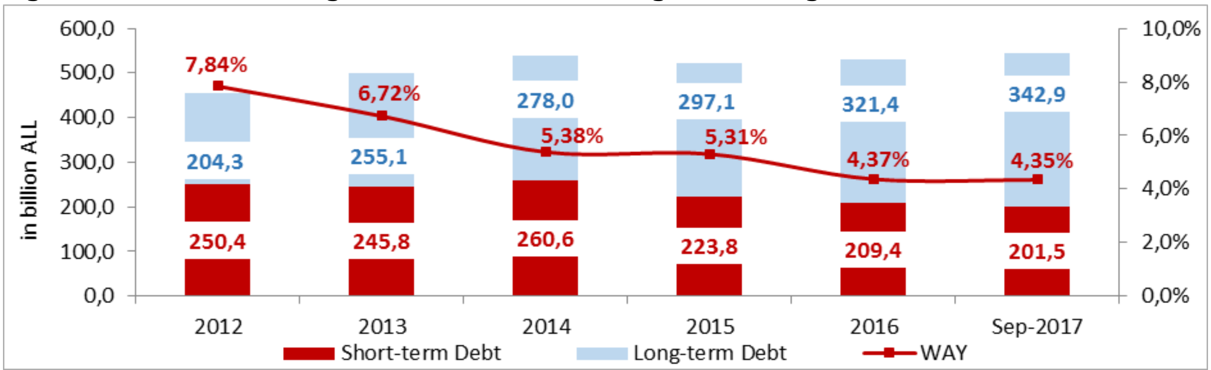
Figure: Budgetary Central Government Debt Interest Payments



Source: Ministry of Finance and Economy (2017)

On the other hand, albeit the domestic debt portfolio has considerably increased the share of long-term debt, the weighted average yield *(the average cost of domestic debt)* has not been affected, reflecting a notable improvement on the fiscal risk.

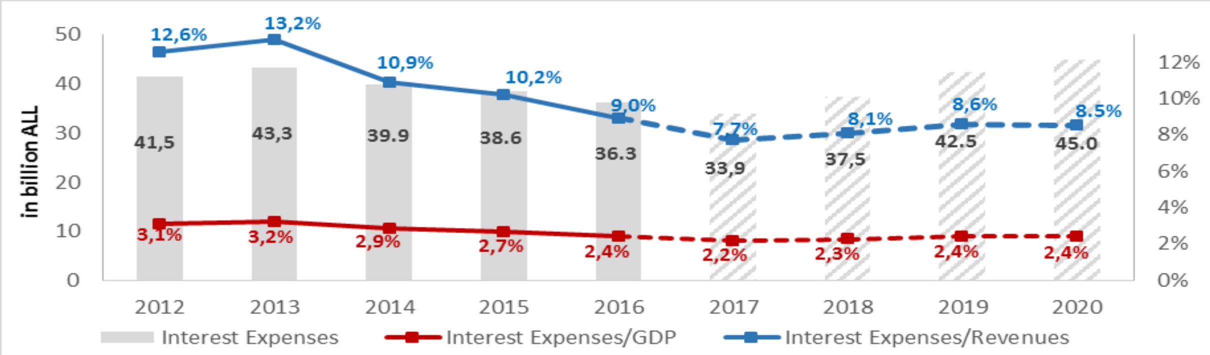
Figure: Domestic debt long-term/ short-term & Weighted Average Yield (WAY)



Source: Ministry of Finance and Economy (2017)

In the medium term, it is expected a gradual increase of cost in absolute terms, due to the increase of debt stock *(in nominal terms)* and the expectations for a possible increase in interest rates in the domestic and external markets. Albeit, in relative terms to GDP and Revenues, cost is expected to remain in comparable levels with the average of the last 3 years.

Figure: Interest expenses & Interest Expenses to GDP and Revenues



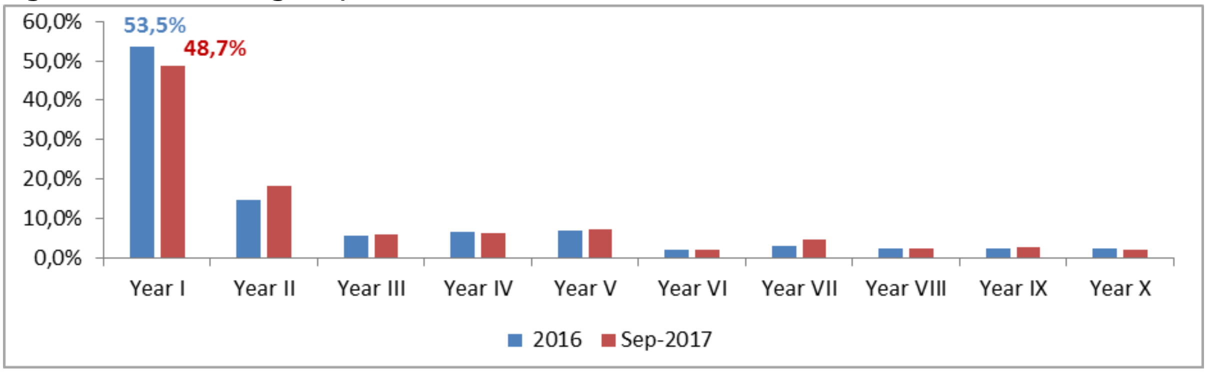
Source: Ministry of Finance and Economy (2017)

Risks

The reduction of refinancing and interest rate risk in the domestic market has been one of the main strategic objectives of the debt management. In this aspect, considerable progress has been made during the nine-month period of 2017. External debt represents less risk since it is composed by long-term instruments, a considerable share of it is borrowed with concessional terms, and approximately half of it is with fixed rates.

Refinancing risk has improved due to the decrease of short-term debt share. The average time to maturity of domestic debt is 797 days by the end of September 2017, compared with 753 days at the end of the previous year. Meanwhile, the weight of instruments that mature within one year *(as share of total domestic debt)* has decreased from 53.5% in December 2016 to 48.7% in September 2017.

Figure: Domestic Budgetary Central Government Debt Amortization Profile



Source: Ministry of Finance and Economy (2017)

The interest rate risk also has shown significant improvement due to the decrease in the share of short term and variable rate instruments in the domestic debt portfolio, respectively with 2.4 and 2.9 percentage points.

In addition, the share of debt that re-fixes the interest rate within one year reduced from 62.6% in December 2016 to 56.3% in September 2017.

Table: Domestic Budgetary Central Government Debt interest rate risk indicators

Indicator	2015	2016	Sep-2017
Variable Rate Bonds/Total	13.8%	12.7%	9.8%
Fixed Rate Bonds/Total	43.2%	47.9%	53.2%
Re-fixed debt in one year/Total	67.7%	62.6%	56.3%

Source: Ministry of Finance and Economy (2017)

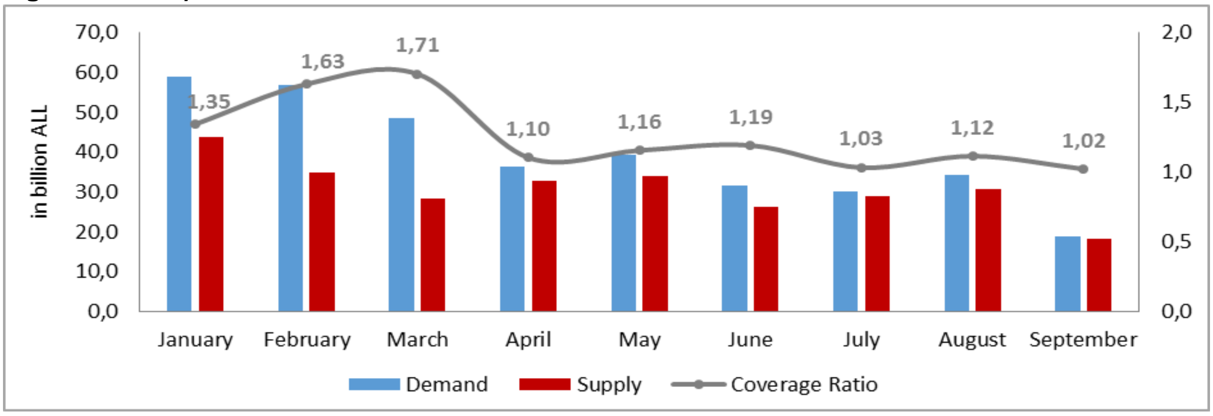
Despite the positive developments, Budgetary Domestic Central Government Debt continues to pose a relatively high refinancing and interest rate risk that needs to be further mitigated in the future. From this perspective, in the medium and long term, debt management will continue its efforts to further extend the average maturity of domestic debt and keep under control the share of variable rate securities.

Market Development

During 2017, the domestic market of government securities has been characterized mainly by positive developments. Worth to be mentioned are: i) the satisfactory demand for Government securities; ii) the diversification of demand toward the category of *Financial Institutions* and *Non-Financial Institutions*; iii) and the low volatility of interest rates.

During the nine month period, the demand for government securities amounted to ALL 354.8 billion *(ALL 230.8 billion related to Treasury Bills and ALL 124.0 billion related to Bonds)*. The demand for Government securities has been relatively high compared to the supply and has generated a positive bid/cover ratio for the most of the auctions.

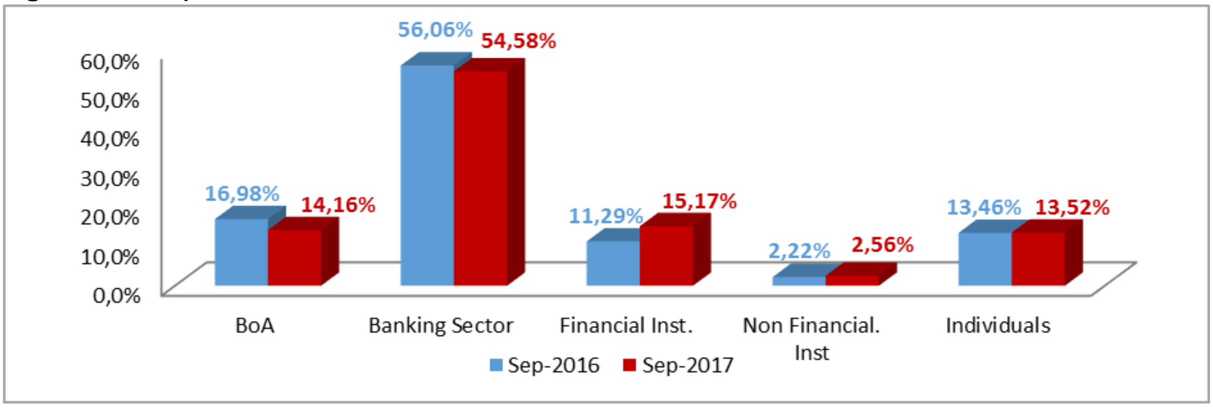
Figure: Primary Market Auctions



Source: Ministry of Finance and Economy (2017)

The main driving actors of the demand for 2017 have been the *Banking Sector*, *Financial Institutions* and the *Bank of Albania*. The relatively high demand for Government securities in the category of *Financial Institutions* and *Banking Sector* is driven by the favorable interest rates and the lower degree of risk offered by the Government securities, compared to other alternative investments.

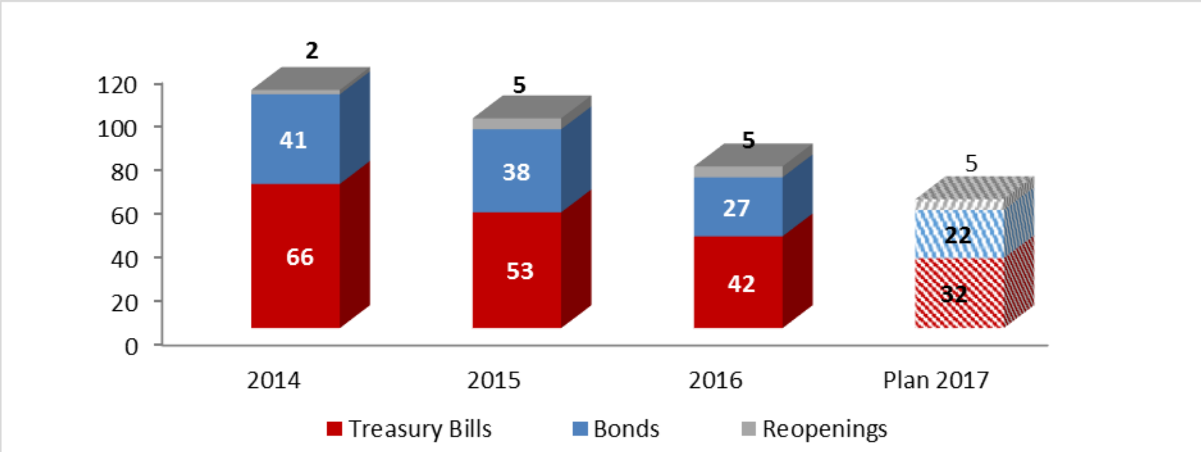
Figure: Primary market demand for Government securities



Source: Ministry of Finance and Economy (2017)

Within the framework of improving the primary market infrastructure and stimulating the secondary market development, during 2017, have been undertaken activities that aimed the reduction of demand fragmentation and the benchmark creation for long term securities.
As regard the reduction of demand fragmentation, it was decided to consolidate the type of government securities by withdrawing the 3 year bond gradually and the 5 year variable bond completely. Meanwhile, as regard benchmark creation, the number of auctions has been further consolidated, by using the reopening of existing issues instead of new ones *(new lines).*

Figure: Auctions development in the primary market for government securities



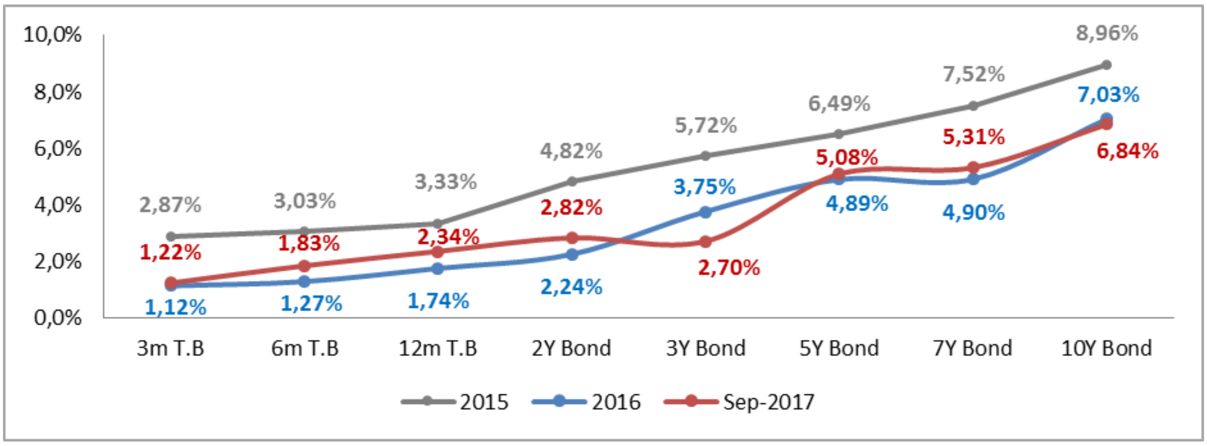
Source: Ministry of Finance and Economy (2017)

In the medium term the objective for the development of the primary market will be focused mostly in activities that will aim the increase of liquidity, efficiency and transparency.

Interest Rate Development

The weighted average yield of Government securities has moderately increased, compared with the end of 2016 *(with the exception of 3 and 10 year bonds).* However, this increase was within expectations and had no impact on the average cost of the domestic debt portfolio, which at the end of September 2017 is almost at same level as at the end of December 2016 *(respectively 4.37% and 4.35%).*

Figure: Weighted Average Yield for Government Securities



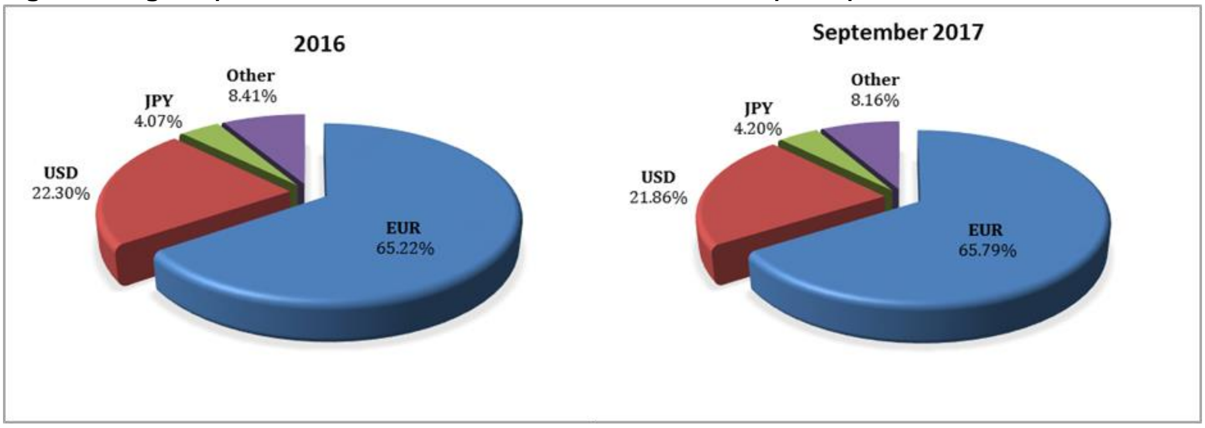
Source: Ministry of Finance and Economy 2017

During the last quarter of 2017 and over the medium term, the interest rates for government securities in the domestic market are expected to increase, but still reaming below the historical average. Highest growth it is expected in the lower end of the yield curve *(Treasury Bills)* and in the variable rate securities, because they are linked to the changes in interest of 12 months treasury bills.

External Debt
At the end of September 2017, the Budgetary Central Government External Debt and Central Government External Guaranteed Debt reached the level of EUR 3.75 billion or 32.2% of GDP.

The Budgetary Central Government External Debt continues to be composed by 3 main currencies: EUR, USD and JPY, where the largest share is held by EUR (65.79% of the external debt portfolio).
Compared with the end of 2016, EUR and JPY increased respectively by 0.57 and 0.13 percentage points, while the share of USD decreased by 0.44 percentage points, as of the end of September 2017.

Figure: Budgetary Central Government External Debt currency composition

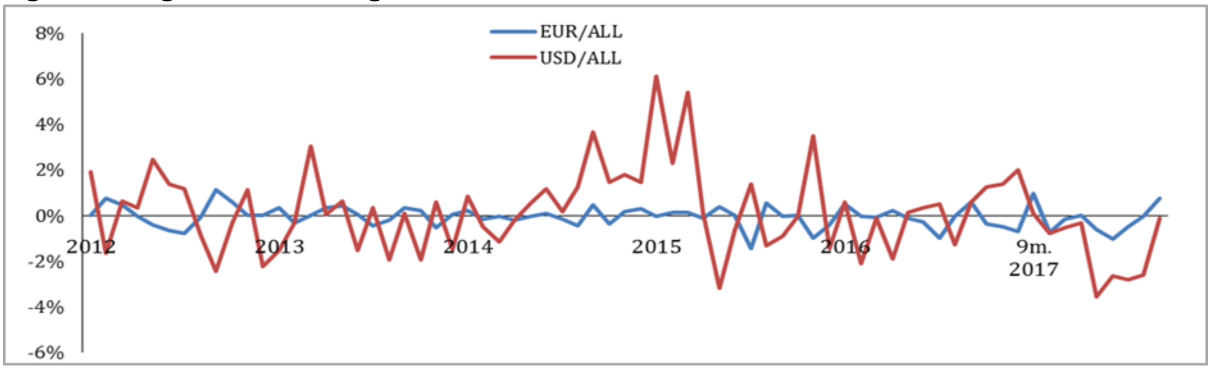


Source: Ministry of Finance and Economy (2017)

The large share of Euro indicates a relatively high foreign exchange rate risk. Nevertheless, the large share of debt stock in Euro has not been a threat for debt management, due to the country's economic orientation towards European Union and the relatively stable local currency towards this currency.
Over the last five years, the EUR/ALL exchange rate fluctuation reached the maximum level of 1.9%, while the USD/ALL fluctuated at a maximum of 6.1%. The costs deriving from

exchange rate fluctuations recently have been moderate, mainly due to the low fluctuation of local currency towards Euro and due to the movements of EUR and USD mostly in opposite directions.

Figure: Change in the exchange rate EUR/ALL and USD/ALL (2012 – 9m. 2017)



Source: Ministry of Finance and Economy 2017

Even though the costs incurred by exchange rate fluctuations have been moderate, in the medium term the Budgetary Central Government Debt stock denominated in foreign currency is planned to stay within the threshold of 55% of total Budgetary Central Government Debt.

Disbursements

During the nine months of 2017 were disbursed EUR 276.6 million, from which EUR 146.1 million in the form of budgetary support, and the rest from the disbursements of loans for project financing. Compared with the same period of 2016, the level of disbursements is relatively higher, indicating mostly an improvement in the performance of project implementation.

Table: Budgetary Central Government External Debt disbursements

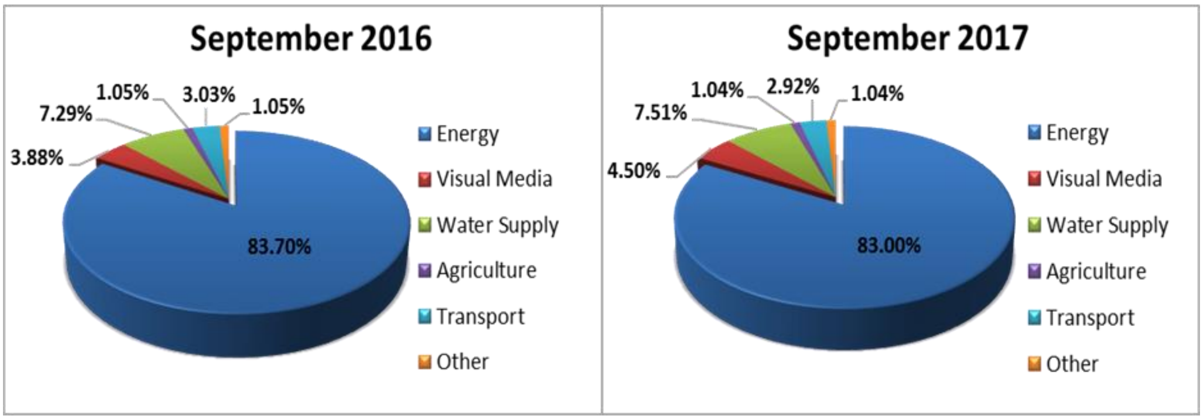
	9m. 2016		9m. 2017	
	Amount *(mln EUR)*	% of Total	Amount *(mln EUR)*	% of Total
Total Disbursements	246.7	100.0%	276.6	100.0%
(i) Budgetary Support	153.2	62.1%	146.1	52.8%
(ii) Project Financing	93.5	37.9%	130.5	47.2%

Source: Ministry of Finance and Economy (2017)

Contingent Liabilities

At the end of September 2017, the outstanding amount Central Government Guaranteed Debt is ALL 50.8 billion or 3.27% of GDP. Guarantees in the domestic market represent 59.4% of the total guaranteed debt stock, or ALL 30.2 billion, while guarantees issued in favor of foreign creditors represent 40.6% of the guaranteed debt stock, or ALL 20.6 billion. The domestic guarantees include short term credit lines issued with marketable terms, and in favor of the Albanian Power Corporation (APC). Meanwhile, external guarantees are issued mainly with concessional terms.

Figure: Guaranteed debt by economic sector



Source: Ministry of Finance and Economy (2017)

Compared with the same period of the previous year, the total outstanding guaranteed debt has decreased in absolute value by ALL 4.2 billion, due to the high level of repayments in compared to disbursements. Around 83% of total guaranteed debt is issued in favor of the energy sector. The large share of guarantees focused in this sector is in accordance with the government objectives in order to improve the performance and increase the efficiency of the energy sector.
In the medium term, the level of guarantees issued by the government is planned within the level of 5-6% of GDP and this instrument will be used for purposes such as:

- To support the development oriented projects that contribute in the improvement of infrastructure, regional development, environmental protection, and creation of new jobs;
- To support possible measures undertaken in case of potential deterioration in the financial system;

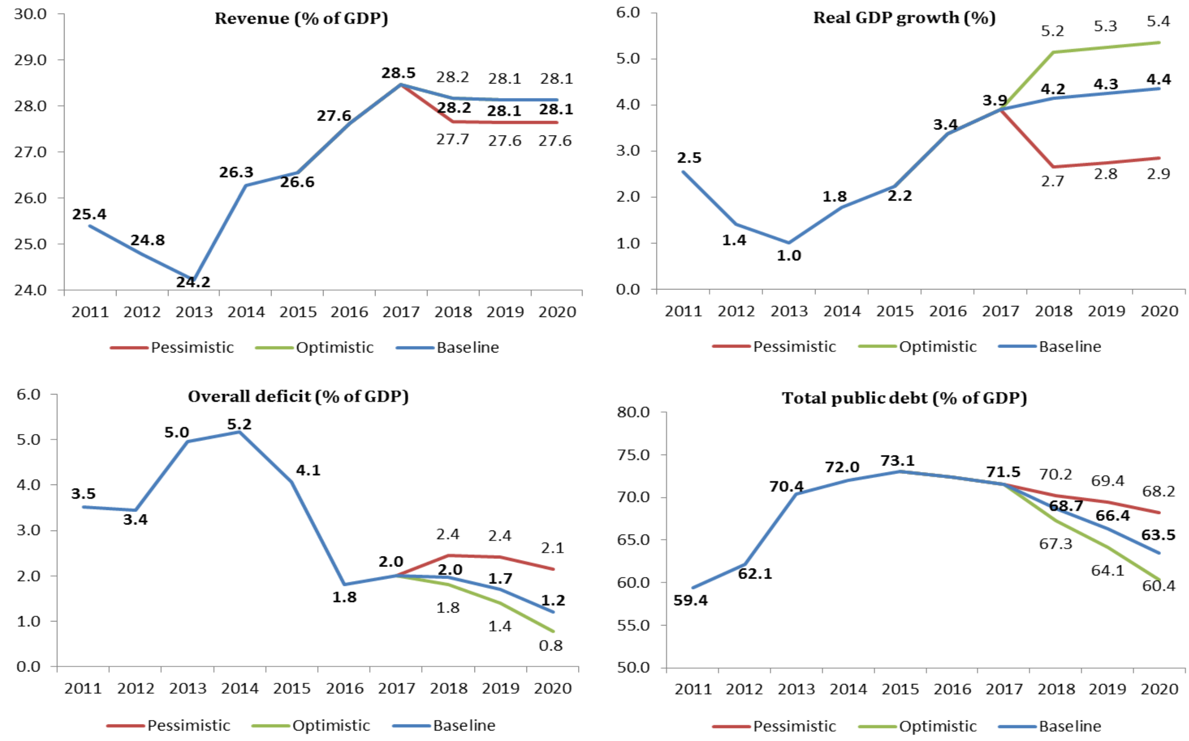
To manage the existing contingent liabilities in order to improve the cost and risks of this portfolio.

3.6. Sensitivity analysis and comparison with the previous program

This section presents the expected implications on the fiscal framework as well as fiscal policy possible adjustments. It is in line with the two alternative macroeconomic scenarios presented in section 2.3.
In the case of the "pessimistic" macroeconomic scenario, which assumes a significantly lower economic growth than the baseline projected for each year, the respective fiscal framework will be based on lower tax elasticity than the baseline. This assumption reflects the rationale that generally a significantly lower economic growth level is expected to lead at lower tax collection efficiency for a number of the major tax components. While in case of the "optimistic" macroeconomic scenario, the revenue to GDP ratio is assumed at the same level as in the baseline scenario.The overall consolidating fiscal policy is planned to be preserved in each macroeconomic scenario. However, the quantitative target of annual fiscal deficit differ to some extent in each scenario reflecting a countercyclical adjustment toward different assumed dynamics of the economic cycle. More specifically, it is foreseen a relaxation of the fiscal deficit target in case of the "pessimistic" scenario and a stronger fiscal consolidation in the case of the "optimistic" scenario. The amount of loosening (tightening) of the nominal deficit target in the "pessimistic" ("optimistic") scenario equals half of the deviation of total revenues in each of the alternative scenarios versus the baseline. Public debt is expected to be reduced in each scenario. However, contrary to the baseline macro-scenario, the public debt reduction trajectory is smoother in the case of "pessimistic" scenario. On the other hand, in the case of "optimistic" scenario it curbs down quicker than in the baseline.

The main item of expenditures which are planned to absorb most of the fiscal effects in the case of each alternative scenario are "capital expenditures with domestic financing". Although there is an explicit line of contingencies for interest rate shocks in the medium term budgets as well as other implicit contingencies, we do not account ex ante on their utilization to meet deficit targets in the pessimistic scenario. However, in practice (ex post), in case the revenues turn out to be lower than the baseline but at the same time there will be no shocks in the interest rates (which is most plausible case) and therefore no additional interest expenditures then the baseline budgeted ones, then a buffer in the range of 0.4 to 0.5 percent of GDP for each year would be automatically available to absorb part of fiscal pressures in case of a pessimistic scenario. Also, the higher needs for deficit financing in the case of "pessimistic" scenario are expected to be covered by higher net domestic borrowing. The fiscal implications of the alternative macro-scenarios are presented in the following table and charts.

Figure: Dynamics of main indicators under different scenarios



Source: Ministry of Finance and Economy (2017)

4. STRUCTURAL REFORM PRIORITIES IN 2018-2020

4.1. Identification of Key Obstacles to Growth and Competitiveness

4.2. Summary of Reform Priorities

The Government of Albania, in line with important strategic documents such as, SEE 2020, NSDI 2015-2020, NPEI 2016-2020, the sectorial strategies, the conclusions deriving from the specific subcommittees and following up on the EU overall country assessment 2017 recommendations, has prioritised for this ERP a total 16 reform measures covering a wide range of thematic areas such as: finance, energy, transport, broadband connectivity, agriculture, industry, business climate, trade, technological innovation, education, VET, employment, social inclusion, and social protection.

The following is a list of the 17 reform measures presented in this ERP 2018-2020:

Reform 01: Establishment of a fiscal cadastre
Reform 02: Further liberalization of the energy market
Reform 03: Diversification of energy sources (gasification)
Reform 04: Feasibility study for the construction and upgrade of the Adriatic-Ionian Corridor
Reform 05: Rehabilitation and construction of the railway segment Tirana-TIA-Durrës
Reform 06: Consolidation and defragmentation of agricultural land
Reform 07: Introduction of strategic policies for non-food industry
Reform 08: Reform on water and waste water sector
Reform 09: Reduce regulatory burden to business
Reform 10: Effective implementation of the national plan to reduce the level of NPL in the banking sector
Reform 11: Improve the institutional capacity of research and innovation system
Reform 12: Adoption of the legal and regulatory framework for the development of the broadband infrastructure
Reform 13: Facilitate trade and reach greater synergy in the implementation of national trade facilitation measures and MAP REA
Reform 14: Drafting and implementation of a competence based curricula and training of teachers
Reform 15: Improve the quality and coverage of VET while ensuring linkages with the labour market
Reform 16: Modernise public employment services, increase employment of women youth and vulnerable people
Reform 17: Strengthening social protection and social inclusion measures

4.3. Analysis by area and structural reform priorities

4.3.1. Public Finance Management

1. *State of play and key obstacles to competitiveness*

Public Finance Management Reform will ensure a public finance system that;

(i)Promotes transparency, (ii) accountability, (iii) fiscal discipline and (iv) efficiency in the management and use of public resources for improved service delivery and economic development.

Main obstacles which hinder competitiveness and sustainable economic growth, which are addressed through PFM reform how to be mitigated and eliminated are; (a) *high level of informality and corruption, (b) the lack of transparency to use public money (c) weak capacity for EU funds by Albanian institutions (d) weak ICT infrastructure, (e) unclear land ownership and poor access to finance*. Aiming to improve PFM reform implementation, Government of Albania has worked focusing on each specific principles ;*(i) Aggregate fiscal discipline*- With this aim the government is engaged to follow the fiscal rule introduced in Organic Budget Law in 2016. The annual budget law 2017 targets a level of total public debt to 69.1% of GDP from the level of 71.8% of GDP target for 2016. At an aggregate level the government has met its fiscal targets, so far, the decline trends is present. In addition the government is working on monitoring, reporting and managing fiscal risks such as the quasi-fiscal activities of public companies, PPPs or other explicit contingent liabilities. Ministry of Finance and Economy, with IMF and World Bank support, has created, staffed and trained a Fiscal Risk Unit. The work to date has concentrated on the critical first step of identifying sources of fiscal risk. A potentially under-estimated fiscal risk remains the opacity around mechanisms to prevent the accumulation of new arrears and the treatment of old, incomplete infrastructure projects without budgets.

(ii) Strategic *allocation of resources-* Budget allocations reflect medium-term policy objectives and priorities as formulated in the line ministry submissions for the medium-term budget planning process (MTBP). The Government of Albania has worked towards development of the sector strategies of the NSDI on the bases of prudent growth path for total expenditures. Progress was made to improve the ratio of total funds estimated in the sector strategies to total funds identified for corresponding sectors in the MTBF (from 42% in 2014 to 53% in 2015 and 56% in 2016). Though some of the analysed sectorial strategies were rather well-aligned with the programs planned in the MTBP, for other strategies the coverage was minimal and comprehensive information about additional funding was not included in the financial estimations of the strategies neither to the MTBP. A new draft is prepared on the guidelines and criteria for prioritizing large public investment projects and to establish a unique pipeline of appraised projects.

(iii) *Efficient use of resources for service delivery* -The basic building blocks of the Albanian PFM framework are in place but further work will be needed to build capacity to focus on performance and the efficiency and effectiveness of service delivery. Public procurement practices are improving. On the side of relevant information provided from CSOs in order to enhance the transparency Open Spending Albania has extended the information on the use of public funds also with Open Contracts Information for private companies implementing public projects. A new portal for Local Finances in collaboration with CSOs has been launched. It provides updated information on revenues and expenditures for local level with other reports for different purposes (e.g. legal framework, historical data for policy making in areas such as fiscal decentralization etc.). Internal audit on compliance has decreased, and the efforts are focused on addressing systemic or performance issues. Performance audits by the SAI are just being introduced, but not published yet. Improved public resource management in Albania is blighted by a significant transparency deficit. The Government of Albania provides the public with minimal budget information, in 2015 Open Budget Index for Albania was 38 scores (less than minimum required-42 scores (OBI). This makes it extremely difficult for citizens to hold the government accountable for its management of the public's money. The implementation of PFM reform shows an improvement from 31 December 2016, the government of Albania makes seven of eight key budget documents publicly available online in a timeframe consistent with international standards. This reflects a net increase over the findings of the Open Budget Survey 2015, which assessed the availability of documents up to 30 June 2014. Since that assessment, Albania has published the Year-End Report and the Citizens Budget.

Components	Timeline

1. Develop routines for and IT support for tracking and monitoring large investment projects (part of AFMIS). 2. Have a clear projects classification to avoid unnecessary multiplication of projects. 3. To contribute to implementation in Albanian Customs Administration the Integrated Tariff Management System fully in line with the EU – ITMS. 4. Prioritization and selection of large investment projects is done in a systematic manner 5. Establish a fiscal cadastre of properties	2018
1. Implement IPSAS 2. Creation of a sustainable statistical system of public administration 3. Strengthen the legal and institutional framework for public procurement	2019
1. Maintain a "Single Strategic Project Pipeline" and ensure alignment on the strategic policy priorities which will enhance the identification, preparation and selection of infrastructure projects 2. Gradually make AGFIS available to all major budget entities	2020

Referring PFM Strategy status during the first half of 2017, 11% of the activities have been completed, 82% of the activities resulted in progress and 7 % had not started yet. The completed activities up to end of June consisted on:

1. Legislative changes as*: Law on Local Finances*, approved in April 2017, which aims to increase local fiscal autonomy and to introduce budget transparency and oversight at local government level; *Law on Public Procurement (2006),* amended in April 2017, which aims to strengthen the independence of the Public Procurement Committee; *New Customs Code*, approved in June 2017, which introduced simplification of customs rules, risk - based approach of Custom controls, computer-based generation of clearance procedures; A new *property tax law* was drafted*; Draft-manual for Fiscal Risks Statement (FRS) compilation; Draft guidelines and criteria* to be used in the technical appraisal by MoFE of large projects; *The National Strategic Project Pipeline (NSPP) 2016-2017,* approved in May 2017, with 143 projects.
2. IT systems as: INSTAT developed National Summary Data Page in 2017 (NSDP), which aims to serve as a one-stop publication vehicle for essential macroeconomic data; AGFIS became operational in 15 budgetary entities: The Tax Administration Information System was finalized in 2017, which serves as communication protocol with Albanian Customs, Ministry of Welfare and State Health Insurance Institute; An External Assistance Management Information System(EAMIS), which aims to support the Government of Albania in effectively managing development finance and promoting accountable and transparent use of resources, is designed and is in testing phase; AGFIS interfaces with Tax Information System was finalized, while it continues the interface with Custom Management Information System, Public Procurement Agency System, Human Resources Management Information System and Debt Management System.
3. Changes in processes and management culture: A *Technical assistance* (TA) in PFM framework commenced in April 2017, it aims to strengthen the capacity of the stakeholders to implement the PFM strategy, provide better coordination and management of the reform process, transparency and accountability processes through enhanced dialogue and availability of information through Parliament; *Also,*

another TA is provided by the State Secretariat for Economic Affairs (SECO) to strengthen capacities in the compilation and dissemination of government finance statistics (GFS) data, to the Ministry of Finance and Economy and INSTAT.

4. Capacity building is in PFM focus, developed through workshops, study tours and conferences, provided by Albanian School of Public Administration (ASPA), Regional School of Public Administration (ReSPA), IMF missions, Joint Vienna Institution (JVI), Center of Excellence in Finance (CEF), TAIEX.

2. Report on policy guidance implementation since May 2017

From the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey on 23 May 2017 resulted that the recommendations which should be implemented under Public Finance Management are as follows:

REC 1. Continue pursuing fiscal adjustment with a view to meeting the indicated medium-term targets for reducing public debt as a share of GDP. Introduce further fiscal consolidation measures if debt reduction is at risk of falling short of target.

The first recommendation is implemented under Government Programme for 2017-2020. The Government's stated priorities include the consolidation of macroeconomic stability and it will give special attention to economic and financial policies that will enhance growth through industrialization. In this program Government restates its commitment to a gradual reduction of public debt to about 60 per cent of GDP by the end of the mandate. In February 2017, the IMF, at the conclusion of Albania's IMF-supported Extended Arrangement under the Extended Fund Facility, had commended the Government's macroeconomic reform and fiscal adjustment efforts and encouraged a reduction of public debt to 60 per cent of GDP by end 2019. The Government Programme is indicating a slight postponement of the time when public debt can be expected to be less than 60 per cent of GDP.

REC 2. Persist with recent revenue mobilization efforts, in particular by (i) strengthening tax administration further; (ii) broadening the tax base based on a review of tax expenditures; and (iii) introducing a valuation-based property tax.

To implement the 2nd recommendation the Government of Albania is focused aiming to increase tax base. In this regard a third stage of anti-informality campaign has started in October 2017 and it is planned to last for one year. It was undertaken since this campaign resulted very effective, notably the first stage, when the number of tax receipts, which during the period September – December 2015 increased by 129% compared with the same period of the last year. Between August and October 2015, the number of registered employees and self-employed people increased by 14 per cent compared to end-2014. The number of registered businesses increased by 35 per cent increase over end-2014. The use of cash registers has also increased markedly. Latest available figures from 2015 show that domestic revenues increased by ALL 0.3 billion compared to the same period of the previous year. Institutions, as General Directorates of Taxation, Customs and Labour Inspectorate, organized in common groups, have been proceeding through a detailed working calendar on business inspection from the office and on the field, aiming to expand the tax base. In addition the government has undertaken the deregulation reform. It is a transformative reform of public services to citizens and entrepreneurship, simplifying authorizations, licenses, permits and making possible through reforming the relationship between customs and entrepreneurship or individuals; taxes and entrepreneurship or individuals; but also through digitalization of services, intend to reduce a large number of requests for services that will naturally be simpler. This reform continues the initiative the Ministry of Finance and Economy had at the end of 2016 with the law on simplification of tax procedures. As well, a new measure is undertaken to introduce a valuation-based property taxation , in this regard a new law on property tax is drafted, where is defined a new methodology and it is ready for approval by the end of 2017

REC 5. Continue the processes of clarifying the ownership of agricultural land and registering property, and put in place a functioning comprehensive cadastre and an e-cadastre by 2019.
Following the 5th recommendation Government of Albania stressed the establishment of a fiscal cadastre in its program as a priority. Efforts for this priority are intensifying focusing in four municipalities (Tirana, Durrësi, Fieri, Korça) at first, then expanding the cadastre for all 61 municipalities. In close cooperation with SIDA, is foreseen that fiscal cadastre will be established and functional for these four municipalities by the end of 2018.

3. Priority reform plans

Reform 01: Establishment of a fiscal cadastre

A new government priority consists in establishing fiscal cadastre. In this context, a new property tax law was prepared and consulted with external partners as: SIDA and WB. The main characteristic of this new property tax law consists in methodology changes, in old law the tax on building was calculated in meter square, while in new law it considers a tax based on the market value. This methodology changes only for tax on building. It is submitted in Parliament for approval. Cooperation between the Swedish, Kosovo and Albanian tax administrations is focused on building up a fiscal cadastre (property taxing) system for the use of revenues by the municipalities, following the experience of Kosovo Cooperation with Sweden includes the building of the IT system for the fiscal cadastre free of charge from the Swedish side. Establishment of fiscal cadastre has been a planned measure to continue since in 2015, but only by the end of 2016 it came up as a government priority. Since it seemed unrealistic to be completed in one phase it was re-planned to be established starting in pilot bases in four municipalities only with tax on building and then expanding in a national database for all type of property tax as: tax on agriculture land, urban land and on building. The tax base on buildings is the value of the building, calculated in accordance with the methodology and procedures which will be established by the Council of Ministers Decision after the approval of the law and the new tax will be apply in whole country, as the law will enter in force. While tax rates are defined in draft law in three categories; the building used for housing, for economic activity and for the entire building surface for which the developer is equipped with a construction permit and has failed to complete it according to the deadline set in the act approving the request for a construction permit.

Timeline

Even though this measure's activities were been planned for 2016-2017, they were not fulfilled according to their defined timeline, so they are currently on-going.
2018

- Conduct a feasibility study; prepare the ToR and select the company to prepare the system - this activity is almost completed. There remains only the selection of the company, which is planned for the beginning of 2018.
- Review the legislative framework and revise if necessary MFE - a new draft law on property tax has been prepared. It is expected to be approved by the end of 2017 or beginning of 2018.

2019

- Start applying the property tax on building for 4 pilot municipalities (Tirana, Durrësi, Fieri, Korça). This is a new activity added in 2017, since it seemed difficult the establishment of a national fiscal cadastre only in one phase.

2020

- Start applying the property tax for all municipalities (61) - In close collaboration with SIDA, after the establishment of the fiscal cadastre in pilot bases, it will be expanded in all country.

Cost per activity
In the Strategy of Public Finance Management 2014-2020 the estimated cost for this measure was euro 36 million, divided in an amount of 10 million for each year 2015, 2016, 2017 and euro 2 million were foreseen for each year; 2018, 2019, 2020. Since this measure is delayed the estimated cost should be revised.

Budgetary impact
Through conducting a preliminary analyse to estimate the impact of budgetary revenue it resulted that this measure has a positive impact on budget revenue. From establishment of fiscal cadastre is expected to collect additional revenue at level 0.3-0.5% of GDP, when it becomes functional. While budgetary impact on expenditure needs to be re-estimated since it was not implemented at the targeted time-bound. Hence, it seems difficult to give the full picture of net budgetary impact currently. In addition, MoFE is considering to estimate the cost again for 'The establishment of fiscal cadastre' measure.

Expected impact on competitiveness and social outcomes
The land ownership could be clarified through this tool. The purpose of the cadastre will be to consolidate all existing data on land, buildings and owner/occupants, and to calculate the annual tax obligation associated with each property. Each property will be assigned with a unique property identification number and either the legal owner, if known, or the occupant, along with the national ID number for that person or entity. In long-term perspective, fiscal cadastre could strengthen agricultural sector and so making it competitive in region and providing employment potential. As well, development of the tourism sector, infrastructural improvements, and access to finance may be influenced.

Potential risks
(i) Restructuring of the entire public administration, which commenced after general election, since mid-September 2017 up to the end of 2017, risks to affect the work plan timeline.
(ii) Willingness of the working group to follow the work plan and keep strengthening the collaboration with SIDA.
(iii) Design of IT system which appears complex.

4.3.2. Energy and transport market reforms

1. *State of play and key obstacles to competitiveness*

In the framework of the Berlin Process and the Connectivity Agenda/Initiative, the EC and all the WB6 countries are committed to improve the regional cooperation and at the same time the economic stability of the countries, aiming the matching of European standards and fulfilling the EU accession criteria.
The reform of the energy sector in Albania is in progress, including the liberalization of the energy market, in accordance with the commitments under the SAA and the Energy Community Treaty, in the frame of the Third Energy Package.

The energy sector is one of the strategic sectors and a priority of the Albanian Government given the diversity of energy resources (water, wind, solar, oil, gas, etc.) that our country possesses, which so far are not fully exploited. Energy has the potential of being a sustainable source of growth for country over the short to medium and long-term. It also has the potential of increasing the value of the energy produced in our country and decreasing the imports of energy. The 100% of the local Electrical Power is produced from Hydro Sources, while only 35% of Albania's hydropower potential is used. Electricity production is highly dependent on the volatility of the water flow in the Drini river cascade. Work continues to increase manufacturing capacity in waters through the construction of Hydro Power Plants Concessions and measures to support the growth of renewable energy capacity and to exploit the significant potential of renewable energy resources, mainly water, biomass, wind and solar.

However, the big potentials of our country and the improvement of performance of the energy sector during the last two years, the energy imports remain still high. We intend increasing domestic production and reducing the level of technical and non-technical losses of electricity in the distribution network that has direct impact in reducing the amount of energy imported for meeting the demand for electricity in the country.
The GoA is working on the reform of the energy sector in the context of liberalisation of the energy market. Thus far, a number of measures have been completed, as follows:

- Concrete and important progress in aligning the internal legislation with the acquis in the field of energy. The law on the Electricity Sector[18] is fully aligned with Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules and the Third Particular Package of the Market Internal electricity supply and the repeal of Directive 2003/54 / EC".
  Based on this law, the sub laws has been adopted, where the most important is the Electricity Market Model established with DCM No. 519 of 13.07.2016 "On the approval of the Electricity Market Model", which entered into force on 22.07.2016. The approval of the Albanian Electricity Market Model is the last step towards the development of the electricity market in Albania in a fully competitive energy market, in accordance with the obligations of the Energy Community Treaty.
- Albania has fully implemented the separation of KESH S.A. ownership from the ownership of OST S.A., an obligation under the Third Energy Package. The DCM No. 317 of 27.04.2016 "On defining the public authority that represents the state as owner of the shares in the companies in the electrical power sector" was approved to this purpose. The Decision separates the ownership of KESH and OSHEE from TSO. Based on this DCM, the Ministry of Infrastructure and Energy is the public authority, which represents the state as the owner of the Albanian Energy Corporation, and Albanian Power Distribution Operator; and the Public Authority, which represents the state as the owner of the Transmission System Operator (TSO), is the Ministry of Finance and Economy.
- In accordance with the Third Energy Package, the obligation of the wholesale public supplier has passed from KESH s.a to OSHEE s.a with DCM No. 244, dated 30.03.2016 "On the approval of conditions for the establishment of public service obligations for licensees in the Electricity Sector, which operate in generation, transmission, distribution and supply of electricity". Based on this DCM, from 1 July 2016, KESH s.a no longer exercises the function of the Wholesale Public Supplier and is not obliged to purchase electricity produced by Priority Electricity Producers. KESH operates only as a public electricity generation operator.

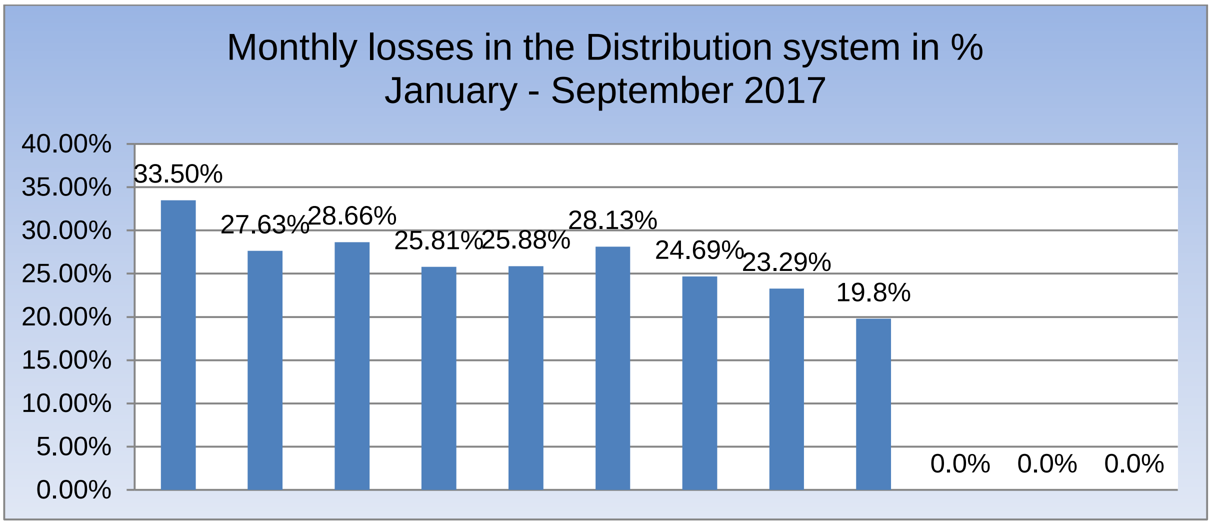
In accordance with Article 54(6) of Law No 43/2015 "On the Electricity Sector", and after receiving the opinion of the Secretariat of the Energy Community, the Albanian Power Regulator (ERE) approved the certification of the OST S.A. as the Transmission System Operator.[19]

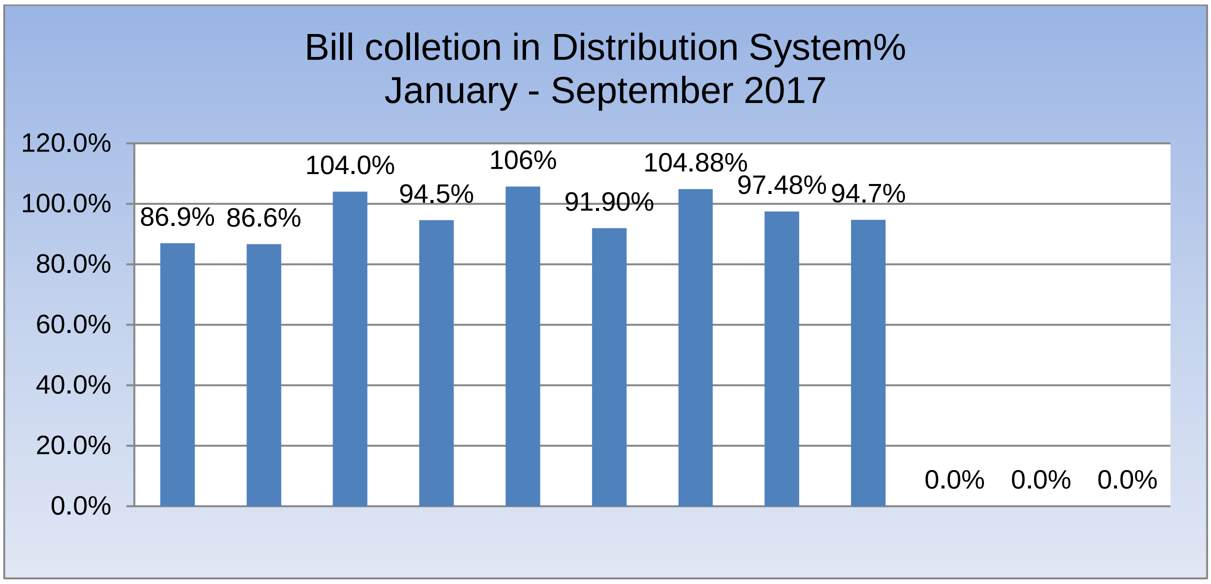
Following the final certification of the OST S.A. by ERE as a transmission system operator, and after the fulfilment of the conditions, on 30 March 2017, the ENTSO-E Assembly voted in favour and admitted OST S.A. as a full member.

[18] Law no. 43/2015 of 30.04.2015 "On the Electricity Sector"

[19] Decision of ERE No. 43 of 15.03.2017 "On the final approval of the certification of the Operator of the Power Transmission System OST s.a"

Albania has made progress towards eliminating high fiscal risks posed in the electricity sector by reducing distribution losses and by improving the bill collection rate:





In the supply of energy products according to the country's Energy Balance (referred to 2016), electricity accounts for 28.8%, while 59.5% consists of fuel products, mainly oil and its by-products, which is considered a strategic necessity to diversify energy supply resources through Albania's connection with regional gas networks and gasification of the country.
Reform in the energy sector is in rapid progress including the liberalization of energy trade in line with the requirements and objectives under the Third Energy Package of the EU.
Albania has made concrete and very important progress toward aligning the Albanian legislation with the EU acquis in the area of energy, with regard to the Third Energy Package of the EU, through the adoption of Law no. 43/2015, dated 30.04.2015 "On the Electricity Sector", as well as Law no. 102/2015, dated 23.09.2015 "On the Natural Gas Sector", as well as the preparation and approval of sub-legal acts for the implementation of these laws, which is an on-going process.
Despite the country's great potential and improved energy sector performance over the last two years, energy imports remain high. The aim is to increase domestic production and reduce the level of technical and non-technical losses across the distribution network, which has a

direct impact on reducing the amount of imported energy to meet the demand for electricity in the country.

The Adriatic-Ionian Highway is a strategic project intended for the region of Southeast Europe and the Balkans. Its completion will provide a corridor of high capacity and quality which will connect Central Europe and Northern Italy with Ionian peninsula via Slovenia, Croatia, Bosnia and Herzegovina, Montenegro, Albania and Greece. The Adriatic–Ionian Highway/Expressway is included on indicative extension of the TEN-T Core Network based on the SEETO comprehensive network which encompasses the Albanian North-South Road Corridor linking the Montenegro border with the Greek border, through Albanian territory (Route 2).
As reported under the 8th Subcommittee on Economic & Financial Issues and Statistics, the WBIF Steering Committee approved in December 2015, a grant of 4 million euro (2.5 million euro for Albania and 1.5 million euro for Montenegro) for the Feasibility study for Adriatic-Ionian Highway/expressway between the two countries. ToRs for this project were prepared by IFICO after consultations with European Bank for Reconstruction and Development (EBRD), Albanian Road Authority and Ministry of Transport and Infrastructure. The final draft of ToRs was shared with the national stakeholders and the lead IFI on 13 March 2017. The Albanian Ministry of Transport and Infrastructure granted its "approval" to ToRs on 11 April 2017.
The status of the progress of this project is as follows:

Fieri Bypass (Part of Adriatic-Ionian the Corridor) is under construction. The project is due to be retendered for the remaining part of the project. Project is realised at 58%.

The next steps for the upcoming years, in order to complete this reform measure, will be focused on:

- Preparation of ToR for the feasibility study; Inception phase of feasibility study and feasibility study

All the procedures related to the above measures, are planned and implemented by WBIF.

Aiming at establishment of competitive, reliable and safe transport system which positions Albania within the European railway market as a player in South-East Europe transport corridors and Rail Freight Corridors RFCs and increases the competitiveness and visibility of extensions of TEN-T Corridors and SEETO Corridors, includes as well the rehabilitation and construction of the railway segment Durres-TIA-Tirana.

This reform is in alignment with the current policy of the Government of Albania, with the Transport Sector Strategy and Action Plan 2016-2020 and is considered a priority project in the Single Project Pipeline.

2. Report on policy guidance implementation since May 2017

So far, several important measures have been taken to liberalize the energy market, followed by the on-going process for the preparation and approval of secondary gas legislation, along with the preparation and approval of the Gas Master Plan and Projects Identification Plan, an activity developed in cooperation with the COWI-IPF consultants. An important process was the completion of the establishment of the new gas company "Albgaz sha" as a result of removing gas transmission and distribution activities from "Albeptrol sha"
The Council of Ministers adopted a decision for the establishment of "Albgaz sha" and the appointment of the public authority representing the state as owner of the shares of "Albpetrol sha" and "Albgaz sha".[20] Currently, "Albgaz sha" has received certified by the Energy Regulatory Entity (ERE) to operate as the Gas Transmission Operator; moreover, ERE

[20] DCM no. 848, dated 7.12.2016, "On the establishment of the company "ALBGAZ" sha and the determination of the public authority representing the state as the owner of the shares of the companies "ALBPETROL" sha and "ALBGAZ" sha." Entered into force on 13.12.2016

has approved the temporary tariffs that will be applied by "Albgaz sha" for gas transmission.[21]

Meanwhile, ERE:

- has adopted Decision no. 153 of 28.09.2017 "for the commencement of the procedures to approve the licensing of natural gas transmission", and Board Decisions no. 161 (12.10.2017); no. 162 (12.10.2017); and no. 163 (12.10.2017) to commence procedures for the licensing of activities related to gas distribution, supply and trade, respectively.

3. *Priority reform plans*

Reform 02: Further liberalisation of the energy market

In line with the measures contemplated in the previous ERP and in view of the already completed milestones, the Economic Reform Programme 2018-2020 will focus on the following actions:

- The establishment of the Albanian Power Exchange.

DCM No. 519 of 13.07.2016 "On the approval of the Electricity Market Model" authorises the MIE and the Albanian TSO S.A. to prepare the necessary acts for the setup of the Albanian Power Exchange. MIE will decide within 31 December 2017, to start the operation of the Albanian Power Exchange, upon the fulfilment of legal, technical and regulatory steps, as stipulated by the Albanian Electricity Market Model. To this purpose, a working group was established by order of the Minister of Infrastructure and Energy.[22]
The Working Group, based on the legal assessment of the experts and discussions of the meetings, concluded that the option identified to enable the setup of the Albanian Power Exchange, requires the amendment of certain provisions of Law No 43/2015 of 30.04.2015 "On Power Sector". To this purpose, a draft Law "On some addenda and amendments to Law No 43/2015 of 30.04.2015 'On Power Sector" is prepared, aiming to amend Articles 3, 57 and 99 of the Law No 43/2015 "On Power Sector". The draft Law was submitted for opinions to line ministries and other responsible institutions. Comments are taken from several institutions. The set-up of the Albanian Power Exchange depends on the adoption and entry into force of amendments to Law No 43/2015 of 30.04.2015 "On Power Sector".

- The unbundling of the distribution activity from the supply.

The legal and functional unbundling of Distribution System Operator (OSHEE S.A.), which aim the unbundling of distribution from the supply activity will be carried out within December 2017 as stipulated in article 72 of the Law No 43/2015 of 30.04.2015 "On Power Sector". OSHEE S.A. has prepared the unbundling plan and has selected the COM METODI S.P.A as a consulting company for this process. The unbundling model was approved by the Supervisory Council of OSHEE S.A.[23] and also by the Minister of Infrastructure and Energy as the General Assembly of the Company. The functional unbundling of distribution activity from the supply one is in progress.

- Completion of the project in the transmission system. Construction of The 400 kV Interconnection line (Albania) - (FYROM)

The construction of the 400 kV Interconnection line (Albania) – (FYROM) connecting Albania with the Former Yugoslav Republic of Macedonia (FYROM) will begin soon. The 400 kV Interconnection line (Albania) – (FYROM) is included in the Projects of Energy

[21] Decision of ERE Board no. 90 of 07.06.2017

[22] Order No 280 of 01.09.2016 "On the establishment of a Working Group to prepare the acts and measures necessary for the set-up of the Albanian Power Exchange"

[23] Decision No 65 of 19.12.2016 "On approval of the corporate model"

Community Interest (PECI) list. This project is part of the EC's initiative to establish an East – West electricity transmission corridor between Bulgaria, FYROM, Albania, Montenegro and Italy. In Albania, a 400 kV transmission line will connect Fieri to Elbasani and from there to the border with Macedonia. The overall result will be the integration of the Albanian power transmission system into the European energy market. As a result, the regional energy dispatch between Albania and Republic of Macedonia and the other WB6 countries will be improved, leading to the expansion of the supply market. The project creates regional trade opportunities. Expansion of the Elbasani 400 kV substation will increase the reliability of the operation of the Albanian power system and will enable maintaining the voltage levels in the 400 kV network at optimal values.

Timeline

2018

- Development of detailed design (phase 1) for Elbasan (Albania) - Bitola (FYROM) interconnection line
- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 1
- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 2

2019

- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 1
- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 2

2020

- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 1
- Implementation of the project Elbasan (Albania) - Bitola (FYROM) 400 kv interconnection line: Lot 2

Cost per activity

Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM), Albania's part - 70 million EUR *Financed EUR 50 million from KfW (loan), EUR 15 million from WBIF (grant) and EUR 5 million from OST sh.a (including VAT)*

Budgetary impact

There is no impact on the state budget for this reform measure

Expected impact on competitiveness and social outcomes

The further liberalization of the energy market, which will lead to decentralization of the energy power system, will have direct positive impacts on competitiveness by enabling the participation of the private operators in the electricity market and will increase the quality of supply. This reform measure will increase considerably the investments and contribute to job employment and competitiveness and will also allow the decrease the cost of energy for consumers.

Potential risks

For the project "The 400 kV Interconnection line (Albania) - (FYROM)" specific obstacles may arise during the expropriation, procurement and licensing procedures necessary for implementation of the project and also technical impediments given the nature of the project.

Reform 03: Diversification of energy sources (gasification)

The diversification of energy resources through the development of the gas sector consists of creating a complete legal and institutional framework for the sector; the undertaking of a number of regulatory initiatives and investment projects in the gas infrastructure and market, whose main objective is to ensure significant security of energy supply and increased economic benefits for the population and the different sectors of the economy in the country.

Timeline

2018

- Adoption of Gas Master Plan for Albania and the Project Identification Plan, which are considered territorial development policies in line with the requirements of the legislation in force for territorial planning and development;
- Finalisation of preparation and approval of the feasibility study for the gas pipeline connecting the Vlora thermo power plant with the TAP pipeline project at the compression station in the Fieri region. (the project has begun in 2017);
- Preparation of the preliminary technical project for the Albanian and Montenegrin part of the IAP pipeline;
- Preparation of the prefeasibility study for the ALKOGAP project (Albania-Kosovo gas interconnection).

2019

- Preparation of the preliminary technical project for the Albanian and Montenegrin part of the IAP pipeline;
- Finalise preparation of the detailed technical project of the pipeline connecting Vlora TPP with the TAP project in the compression station in Fieri region.

2020

- Preparation and adoption of the preliminary technical project for the Albanian and Montenegrin part of the IAP pipeline;
- Preparation of the prefeasibility study for the ALKOGAP project (Albania-Kosovo gas interconnection).

Cost per activity

- Preparation and adoption of the feasibility study for the pipeline that will connect Vlora TPP with the TAP project: EUR 300.000 grant, financed by the Swiss Confederation in the framework of building the capacities in the gas sector in Albania;
- Completion of secondary legislation pursuant to the new gas law: administrative costs;
- Preparation and adoption of the preliminary technical project for the Albanian and Montenegrin part of the IAP project: EUR 2.5 million grant, financed by WBIF;
- Preparation and adoption of the prefeasibility study for the ALKOGAP pipeline project: EUR 0.3 million grant, financed by WBIF;
- Preparation and adoption of the detailed technical project for the pipeline that will connect Vlora TPP with the TAP project: EUR 2 million. An application for grant financing will be made during the next WBIF round in 2018 (according to the application for qualification in SPP 2016);
- Preparation and adoption of the feasibility study and VNMS for the for the ALKOGAP project: EUR 1.45 million. An application for grant financing will be made during the next round of WBIF in 2018 (according to the application for qualification in SPP 2016).

Budgetary impact

Projects financed by WBIF are exempt from VAT reimbursement, due to the direct management by the EU and the respective regional offices.

Meanwhile, the feasibility study for the pipeline that will connect Vlora TPP with the TAP project: for financing of EUR 300000, VAT in the amount of EUR 60000 will be reimbursed as local costs, already included in the state budget.

Expected impact on competitiveness and social outcomes
Diversification of energy sources (gasification) will have direct positive impact on increasing competitiveness by making possible the addition of a new energy source in the energy market in Albania, as well as contribute in the increase of security of energy supply. The reform will have direct social and economic impact by contributing in the improvement of the environment; and improving employment opportunities.

Potential risks
No risks are foreseen in the realisation of the projects and studies in support of diversifying sources of energy supply in particular the gasification of the country and the development of the gas network and interconnection lines with the region and beyond since the financing has been agreed upon already and they are donations from EU institutions or in support of it.

Reform 04: Feasibility study for the construction and upgrade of the Adriatic-Ionian Corridor

Timeline
2018
- Inception phase of feasibility study and feasibility study (first half of 2018) Request of e second financing grant for the next stage (detailed design).

2019
- Preparation of tender procedures for selection of company in charge for the detailed design.

Cost per activity
EUR 2.5 million grant contribution from WBIF (VAT not included)

Budgetary impact
20% VAT (EUR 500,000) of the Grant amount already included in the state budget as local costs.

Expected impact on competitiveness and social outcomes
The Adriatic-Ionian Highway/Expressway will allow the establishment of a competitive, reliable and safe transport system in the country. Reduced traffic bottle necks, road accidents and levels of noise and emissions, are expected to be achieved upon completion of the project. On the other hand, a better road connection with neighbouring countries will increase considerably the trade exchanges, followed by reduction of vehicle operating costs and energy consumption.

Potential risks
All procedures are managed by WBIF. This may cause difficulties in placing deadlines on the implementation of measures, especially related to ensuring the funds for the next phase, which is the detailed design.

Reform 05: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana

The project consists of the rehabilitation of the existing railway line between the Tirana PTT (Public Transport Terminal) which is expected to be built in the near future and Durres, with approximate length of 34.7 km, and the construction of a new railway line approximately 5 km in length to connect to the Tirana International Airport (TIA) and its interchange with the existing line (the "Project").

The Project is part of Route 2a of the Western Balkans Core Network and has been established as an indicative extension of the Trans-European Transport Network (TEN-T). The Project is consistent with the national policies for the railway sector and in particular with the Albanian Government Program, National Strategy on Development and Integration (NSDI II 2015-2020), Annual National Transport Plan and Sustainable Transport Plan, Sectorial Transport Strategy 2016-2020 and National Strategy for the Development of Railways 2014-2016. On 21 March 2016, the Project was approved by NIC (National Investment Committee) as a high priority for the Government of Albania.

The Project is co-financed by an EBRD loan in the amount of EUR 36.87 million and a WBIF grant in the amount of EUR 35.435 million which consist of an investment grant in the amount of EUR 32.935 million and a technical assistance grant in the amount of EUR 2.5 million for the works supervision and project implementation support. In addition, WBIF grants in the amount of EUR 2.75 million were provided for project preparation. The loan agreement between Albania and the EBRD was signed in December 2016 whereas the Grant Agreement between the Albania and the EBRD for the use of the WBIF grant of EUR 35.435 million is expected to be signed in December 2017.The general procurement notice for works, goods and services has been published and the procurement process for the works contract is expected to start in early 2018. The procurement of the consultancy services for the works supervision, implementation support, and asset management plan and track access charges methodology is on-going.

Timeline
2018

- Award of the works contract and commencement of project implementation.

Cost per activity
Estimated cost for the entire project EUR 90.45 million
*EUR 36.65 million, Grant, EU/WBIF contribution
** EUR 36.87 million, Loan, EBRD contribution (repayment period 15 years)
*** EUR 0.87 million, Grant EBRD contribution
**** EUR 16.06 million, Beneficiary contribution

Budgetary impact
EUR 16.06 million, beneficiary contribution (EUR 15.06 million VAT and EUR 1 million expropriation cost).

Expected impact on competitiveness and social outcomes
The Project is the first major investment in the railway sector following decades of severe lack of investments in this sector. The Project will contribute to the development if Albania's infrastructure, support national economic development and enhance Albania's regional integration. The Project will reduce the travel time by train from Tirana to Durres providing a competitive alternative transport service to road transport. The Project will increase the passenger and freight travel speed from 60 km/h at present to the design speed of to 120 km/h, throughout the Tirana-Durrës railway line. In terms of outcomes of the Project, traffic demand is expected to increase to over 1 million passengers per year after the implementation reducing road traffic along the Tirana-Durres road by approximately 2,000 vehicles per day and CO2 emissions by more than 4 kilotonnes.

Expected results include among others, attracting the investments; reducing rail transit times and transport costs (35 % time saving through electronic transmission system; and reducing logistics costs.

Potential risks
The client has not carried out any major investment project for a long time and would therefore be unable to carry out the procurement and implementation of the Project without substantial assistance. The Project includes comprehensive technical assistance to ensure that the procurement follows the required procedures and works are supervised by experienced supervision engineer and that the project implementation unit is assisted by international consultants. The Environmental and Social Action Plan prepared for the Project includes a requirement for the preparation of a land acquisition plan. Specific obstacles may arise during the expropriation procedure necessary for implementation of the Project and some technical impediments given the nature of the project.

4.3.3. Sectorial development

1. *State of play and key obstacles to competitiveness*

The land reform that was conducted in 1991, although it brought about a substantial change in the ownership right over agricultural land, to the benefit of the population living in the countryside, was also associated with a lot of problems. Currently, the main problem is the high fragmentation of agricultural land. In many territories (villages) of Albania this reform was carried out, but the land was scattered without filling in and formalizing land titles.
Lack of ownership titles on agricultural land is a serious obstacle to carrying out transactions with land, buying and selling property exchanges for different land surfaces, in order to reduce high fragmentation. For the fulfilment of property titles on agricultural land, two laws are currently in force:
1. Law no. 171/2014 "*On the completion of legal procedures for the transfer of agricultural land of former agricultural enterprises owned by beneficiaries*", as amended.
2. Law no. 9948, dated 07.07.2008 "*On the Review of the Legal Validity of Creating Ownership Titles on Agricultural Land*", as amended.
During 2017, efforts have been made to improve the implementation of these laws and acts in order to postpone the legal deadline for this process by 31 December 2018.
Another obstacle to the process of land consolidation, for the reduction of high fragmentation, is the process of registering immovable property, agricultural land, in the public register of real estate. In order to facilitate the owners of agricultural land to register their agricultural assets, it has been worked, in cooperation with the Central Immovable Property Registration Office and the Ministry of Justice, to simplify these procedures foreseen in the Council of Ministers Decision no. 994, dated 09.12.2017 "*On the Registration of Acquisitions of Agricultural Land Owned*", as amended.

The processing industry in the last few years of transition has focused on traditional sectors such as chromium and copper. However, as a result of the growing demand for construction (houses etc.) the non-metal processing sector has also experienced some development (production of construction materials like cement, brick, decorative stones, etc.). Despite challenges, it has managed to compete in the domestic and regional markets and further.
The chrome sector, as a result of depleting levels of rich mineral deposits in the last 2-3 years, would benefit more from shifting attention toward processing at a national level, instead of mineral enrichment and smelting, thereby increasing its value in the markets.
The copper sector used to operate full cycle for many years. However, post 1990 the focus shifted toward utilisation of certain schemes for enrichment of certain copper deposits. The sector's fragmentation, as a result of the removal of smelting, refining and wire & cable manufacturing, has hampered its performance in the markets. Unlike chromium, which relies

on the Stock Exchange LME and enjoys flexibility in operating thanks to schemes already in place; the copper sector does not have this opportunity.
Minerals such as nickel-silicate or quartzite also experience similar drawbacks with respect to processing and trade as a result of the situation the processing industry is in.
The leather-footwear industry, which contributes significantly to employment and exports, imports approximately 80% of its raw materials from abroad. Meanwhile, Albania exports unprocessed leather raw materials, thereby reducing its value.
In order to promote processing of these natural resources, pre-feasibility assessments and technical-economic studies need to be conducted by specialised scientific research institutions in the public or private sector for quartzite, nickel-silicates and leather-footwear.
Another area of interest is increasing the waste recycling capacity of copper and its alloys, since in the last 25 years it was exported in unprocessed form.
In 2014 and 2015 the Ministry of Energy and Industry in collaboration with the National Agency of Natural Resources carried out a technical and economic study on the copper industry to compare the actual level of processing with a full cycle processing which includes copper wires and cables. Work is being done to prepare a technical and economic offer in this industry in order to promote unused buildings.
A study on the leather-footwear industry is being carried out in coordination with MEDTTE and AIDA. It is expected to be completed in 2016 and promoted during 2017.
Financial support for two more studies, in the nickel-silicate and quartzite industries respectively is envisaged for 2017, in cooperation with scientific research institutions. Based on the findings of the studies, MEI will work in coordination with AIDA on the promotion of the sectors with a view to increase investment potential.

Integrated water management is one of the 6 priorities of the Government of Albania. This sector plays and important role in the socio-economic development of the country. Albania depends on the water sector not only for drinking water supply, but also for energy production, agricultural development, tourism and recreation. Taking into consideration the EU accession process for Albania, reaching EU standards for these fields is not only a difficult and lengthy process but also very costly. The water sector is also considered to be very fragmented institutionally and from an organisational point of view, which adds to the difficulty for achieving fast and effective improvements. During the last 25 years there have been different efforts for reforms, also due to the weight this sector has in the strategic development of the country. A significant amount of strategic documents have been produced for the purpose of regulating the sector, during the years, however their inter-sectoral integration has been low, while proposals made seemed to weight too heavily on the national budget, making them difficult to implement.
However, the natural water resources in general play a considerable role in the economy of the country. As far as drinking water is concerned it is estimated that, based on the natural reserves, the country may produce up to 8.700 m3 of water per year per capita; this being one of the highest potentials in Europe.
In Albania approximately 80% of the drinking water comes from underground water sources. The supply of water is the responsibility of 58 providers, with an average production of 272 litres/inhabitant/day and an average sale of 109 litres/inhabitant/day. In 2015, national coverage of service provision for drinking water was about 80.8% while coverage for wastewater service is 51%. On the national level there is an average service provision of 12.1 hours/day. It is now estimated that there are possible 150.000 – 200.000 water users without a contract with the utility services. As evident the sector is characterized by a high level of losses informality and non-revenue water.
According to the sector strategy water service coverage in 2014 was 89% in the urban areas and 36% in the rural areas. The sewerage coverage for the same year was 63% in the urban areas and 6% for the rural areas. With regards to the wastewater treatment the figures for

2014 are 12% coverage in the urban areas, and 0% coverage in the rural areas.
Lastly, the Administrative and Territory Reform of 2015, had an effect on the water and waste water utilities as well, however in order to experience the desired effects and an overall improved service provision the territorial reform must be coupled with a more structured sectoral reform.

2. *Report on policy guidance implementation since May 2017*

On October 12, 2016, the Council of Ministers approved the National Strategy for Land Consolidation in Albania.

3. *Priority reform plans*

Reform 06: Consolidation and defragmentation of agricultural land

The main objective of the strategy is the creation of economically successful, competitive and sustainable family farms that will be achieved by developing conditions for the consolidation of land through an appropriate legal framework and implementation of land consolidation projects, which will be part of the National Program for Land Consolidation.
The following measures are envisaged to be achieved during implementation of the National Strategy for Land Consolidation Strategy for the time period 2018-2020.

1. <u>Prepare the legal framework (legal measures)</u>

During 2018, the Ministry of Agriculture and Rural Development, in cooperation with the Ministry of Justice will work toward:
• drafting the law "On land consolidation";
• improving the law "On Immovable Property Registration" and the by-laws for its implementation, which will serve for the process of land consolidation,
• improving the rules on the reduction of payments and services at the Immovable Property Registration Office, in the service of transactions, for the purpose of consolidating the land.

2. <u>Prepare the annual work program, staff assurance and necessary funding (institutional, methodological and financial measures)</u>

In order to achieve the objectives of this strategy, it is foreseen to set up the Sector of Land Consolidation in the Ministry, the development of the legal framework, training and capacity building, which will be financed from MARD and Ministry of Finance and Economy. The funds are foreseen in the budget of the Ministry.
The Ministry of Agriculture and Rural Development will prepare a work program each year for strengthening the capacities of the Land Consolidation Sector and other public institutions that contribute to this process, as well as the development and monitoring of land consolidation activities.
Financial funds for the creation of the Land Consolidation Sector are foreseen for 2018-2020 in the budget of the Ministry of Agriculture and Rural Development.

3. <u>The "Sustainable Agricultural Land Management" program</u> will continue throughout 2018, 2019 and 2020 and will be realized by QTTB Fushë Krujë.
The designation of 63000 ha and 20 administrative units per year is conditioned by human capacities and budget planning for QTTB Fushë Krujë.

Timeline

2018

- Land Information System (LIS) will create about 63 000 ha of agricultural land in the villages of Gjirokaster, Tirana and Durres, from QTTB Fushe Kruje.
- Establishment of the institutional legal framework of LC, in parallel with fund raising

activities to ensure the necessary funding.
- Partial digitization of agricultural land register for 20 administrative units of the country.

2019
- Land Information System (LIS) will create about 63 000 ha of agricultural land in the villages of Gjirokaster, Tirana and Durres.
- Capacity development.
- Partial digitisation of agricultural land register for 20 administrative units of the country.

2020
- Land Information System (LIS) will create about 63 000 ha of agricultural land in the villages of Gjirokaster, Tirana and Durres.
- Public awareness raising. Begin implementation of LC program.
- Partial digitisation of agricultural land register for 20 administrative units of the country.

Cost per activity
102,400, ALL from the state budget for "Registration and digitalisation of agricultural land" (2018, 2019, and 2020).

Budgetary impact
- EUR 36,400 for the integration Land Information System of 63,000 ha of Agriculture land and digitalization of cadastre parcels (2018).*
- EUR 36,400 for the integration Land Information System of 63 000 ha of Agriculture land and digitalization of cadastre parcels (2019).**
- EUR 14,000 for complete GIS laboratory in QTTB Fushe –Kruje (2019).
- EUR 36,400 for the integration Land Information System of 63,000 ha of Agriculture land and digitalization of cadastre parcels (2020).***

**The cost for 2018, is covered by MARDWA budget program 05470 "Sustainable land management"*
*** The cost for 2019/ is covered by MARDWA budget program 05470 "Sustainable land management"*
**** The cost for 2020, is partially covered by MARDWA budget program 05470 "Sustainable land management".*

Expected impact on competitiveness and social outcomes
The land consolidation reform is a complex on and firstly based upon the establishment of the legal basis and proper regulation strongly related to the formalisation of the agriculture holdings as well as their economic activity, which means increase of the access to subsidies and rural credits by farmers and agro-businesses. In addition, it will increase investments in agriculture and development of the formal land market. Land consolidation will lead to the increase of mechanisation of the agriculture which means increase of the new jobs and improve the life quality in the rural areas.
At the beginning of the implementation of this program will be achieved the following results:
a) Reduction of fragmentation of agricultural plots
b) Improving the capacity to deal with agricultural land management and administration
c) Increasing the land use;

Potential risks
Land consolidation serves the transformation of agriculture into a productive and profitable sector, but land owners and rural communities are sceptical about land consolidation.

Reform 07: Non-food industry development policy

Encourage and promote the development of a circular economy for some sectors of industry by increasing the level of cooperation between political structures, academic circles, public or private scientific research institutions and business, providing services, technical-economic studies, which engage in investments in the most complete cycle production scheme as one of the EU industrial policies with economic impact, GDP growth, export growth, employment, etc.

Policy Measure 1: Preparation of technical and commercial offers for the promotion of free mining and processing facilities for the copper industry and its promotion in co-ordination with AIDA and other institutions to stimulate interest for investment in the full cycle of this industry.

In 2014 – 2015 MIE conducted a study on the Technical-Economic Assessment for the Copper Industry in order to compare the effectiveness between two alternatives: (i) Copper ore extraction, its enrichment and export outlet with copper concentrate; (ii) Copper ore extraction, enrichment, melting copper concentrations as well as producing electrolytic copper as a commodity for export, even with complete processing up to wire and cable.

The study, after having gone through an independent evaluation in academic circles and other study institutions, and after completing some of the suggestions of the independent assessment, served as a basis for the preparation of a technical-commercial offer to promote all free mining and processing facilities with the aim of encouraging investors' interest to increase the processing capacity instead as an added value of the economy that enables value increase of profit from this wealth, increase of export value, employment level, etc.

Policy Measure 2: Realization of three technical-economic studies for: (i) Leather-Footwear industry; (ii) Nickel-Silicate industries; (iii) Quartzite industry. And their promotion to the businesses to increase the interest rate for investments in these sectors.

In 2015, reference terms were prepared to enable a technical-economic study of the Leather-shoes industry, with the aim of increasing the added value of raw material from the country. In co-ordination with AIDA and former MZHETTS it was achieved to provide financial support from UNDP as well as to carry out the study from this structure. Within 2016, it was planned that the study be carried out and sent a copy to the Ministry. After the opposing assessment, and based on the results of the study, will cooperate between MEI, AIDA and other institutions to promote it with domestic and foreign businesses, with the aim of increasing the degree of processing instead of the skin which up to now 80% of it comes out raw, while the footwear industry and leather clothing imports raw leather. This will maximize the value of domestic skin, increase the level of employment, and so on. By the end of May 2017, UNDP and AIDA will be sent to the electronic study platform. In July 2017, he was sent to the Opponent Assessment at the Polytechnic University of Tirana (Mechanical Engineering Department, Department of Textile-Mode) and in October this evaluation was sent to the ministry to proceed further. The Ministry with official letter in October 2017 asks UNDP and AIDA to improve within a period of one-month study based on the terms of reference and objections of opponent assessment.

While the terms of reference for two other studies are ready: The Nickel-Silicate Industries and the Quartz Industry, which after the financial support were programmed to be implemented by 2017. Since there is no adequate financial support from the budget for 2017, the ministry has forecast this for 2018

Referring to our natural resources and the current performance of the export of these two types of raw mineral resources, facing a regional market, with high competitiveness, with a deeper processing for quality enhancement of the basic element (Nickel or SiO_2) their added value in export and income in the budget, employment etc. is ensured

Timeline

2018

- Submission of completed studies; carry out independent assessment review and certification by MIE.

2019

- First 6 months: preparation of cooperation program between MIE, AIDA and other actors to begin the promotion of these studies, depending on the expected outcomes.

2020

- Depending on the level of interest shown by investors in the respective fields, legal procedures will be followed up to contracts/agreements signing.

Cost per activity

- 15,000 EUR for 2 prefeasibility studies (Nickel-Silicate and quartzite).
- 7,500 EUR for activities related to the evaluation of study and for promoting to the businesses interested to invest.
- 7,500 EUR are programmed for conducting the study in the ceramic industry.

Budgetary impact

15,000 EUR for 2018; 7500 EUR for 2019, and 7500 EUR for 2020.

Expected impact on competitiveness and social outcomes

The government strategy for industrial development policies foresees: (i) Contribution of non-food industry in GDP will increase to 6%-7% by 2020; (ii) Employment level in the non-food industry sectors will increase 2%-2.5% per year; (iv) Contribution to exports will grow 1.5%-2% per year; (v) Contribute in the reduction of the trade deficit from 24% (2010) to 14% (2020).

Potential risks

- Inter-institutional coordination difficulties to enable/facilitate the moving forward of this measures in the non-food industry area.
- Challenges in achieving a trusting environment for strategic foreign investors, to facilitate/enable such initiatives for large investment for projects lasting more than 20 years.
- Increasing competitiveness in the market, in particular for goods related to the metal Exchange, which will require a continuous assessment, to anticipate situations.
- Frequent tax interventions and movement that invariably affect/impact long-term forecasts for these types of investments.
- Shortages in enriched natural resources such as copper, etc. via search-exploration, since the copper industry still operates with the reserves discovered until 1990, meanwhile the rest of the world has doubled its quantity during this period.

These factors require inter-institutional commitment in order to achieve correct cooperation in relation to promoting development policies in industry, mainly processing; their promotion by relevant institutions inside the country and abroad, while ensuring a full support not only institutional but also several incentives and competitive advantages in attracting strategic investors. AIDA, the Chamber of Commerce and Industry, diplomatic missions etc. have an important role to play in this regard.

Of importance is also to make use of the mineral rent for natural resources to provide support to relevant sectors with studies, research and explorations, to increase the life of projects by increasing the quantity of reserves, etc.

The need to support via an increase in the level of vocational education in the area of geology as well as processing of natural resources is an added value.

Reform 08: Reform on the Water and Waste Water Sector

The reform on this sector covers water supply service and urban waste water treatment and disposal, and will be based on the establishment of three main pillars, Good Governance, Effective Investments, and Action Against Informality.

Timeline
2018
1. Good Governance Pillar
   - Revision of the Regulatory, Institutional and Financial Framework.
   - Improvement of Asset Management viewed for the Physical and Financial standpoints
   - Improvement of Human Resource Management Programs
   - Creation of Awareness Raising Programs
2. Effective Investments Pillar
   - Project Research Framework Improvements and Prioritizations
   - Implementation of Projects on the bases of typology and territory including a good performance prerequisite
3. Action Against Informality Pillar
   - In 2017 this pillar was first instigated with a preparatory phase that raised awareness for the action, while in the first quarter of 2018 the Understanding Phase (self and voluntary regulation), Force Stage (enforcement and control), and Brain Stage (continuity of verification and information awareness) will be completed.

During the action phase the government plans to develop schemes for financial support for families in need, technical support and consulting and work effortlessly with awareness campaigns in order to facilitate the enforcement of the legal framework. On the other hand, a penalties scheme will also be developed in order to discourage non-performance.
2019
- Continuous improvements will be initiated for all the tree pillars of the reform.

2020
- Continuous improvements will be initiated for all the tree pillars of the reform.

Cost per activity
All the actions under the Good Governance Pillar will require only administrative costs. While the Effective Investments and Action Against Informality pillars will have more costs, of which the current estimated amounts, till 2020, may progress up to 10 Million Euros p.a. (from the national budget, taxes), 18 Million Euros p.a. (from International grants and transfers), and 18 Million Euros p.a. (from International loans and tariffs). These predictions are quoted from the WATER FOR PEOPLE - Financial Policy and Implementation Measures, however they are subject to change due to differing conditions, and changing priorities.

Budgetary impact
Some of the actions will have an impact on the budget; however the exact figures are still being calculated.

Expected impact on competitiveness
The purpose of the reform is to improve the wellbeing of the citizens by providing water supply services and waste water disposal and treatment in accordance with internationally recognized standards. This governmental action has several dimensions, of social and economic character such as:
1. Government will be fulfilling its duty to provide the citizens with the service they deserve;
2. Support for health, safety and social responsibilities through governance;
3. Support financial stability and efficiency;
4. Support environmental protection;

5. Implementation of the law;
6. Provide a better climate for tourism;
7. And enforce the consumer pays principle.

The reform will strive to reduce informality to 0% by December 2018. By 2020 the reform should decrease the level of non-revenue water from 67% to 59%, increase water service coverage to 92% in the urban areas and 40% in the rural areas; increase sewerage coverage to 65% in the urban areas and 15% for the rural areas, and improve wastewater treatment by 50% coverage in the urban areas, and 15% coverage in the rural areas.

Potential risks

Potential risks for this reform include delays due to lack of funds, delays due to work load, which will be mitigated by means of careful planning on the central level. There is already a team that has started working for the development of a detailed plan. Furthermore, meetings are being held with the donor community active in the field of water in order to share the government's plan, and share certain projects and tasks. Other risks may include lack of political will; however, this has been already mitigated by the commitment of the highest levels of government, and inclusion of all possible partners in the sector.

4.3.4. Business environment and reduction of the informal economy

1. *State of play and key obstacles to competitiveness*

Albania notes improvements over its business regulatory environment and ease of doing business compared to the previous year. This is reflected in the figures of the Business 2018 report for the Europe and Central Asia region, including Albania, according to which Albania has improved business rules over the past year.

Under the WB Doing Business 2018 report, Albania is ranked 65th out of 189 economies. Ease of Doing Business shows fluctuations (e.g. DB 2016 at 98th place, DB 2017 at 58th place), despite many reforms undertaken in several areas such as starting a business, paying taxes, property registration, construction permit, energy reform etc.

Albania, according to the World Competitiveness Report, ranks 75th out of 137 countries, with an improvement of 5 places compared to the previous report, marking a positive trend in some indicators, such as: Macroeconomic Stability from 4.3 in 2016 to 4.6 score and Labour Market Efficiency from 3.9 in 2016 to 4.0 scores.

Access to finance for SMEs is also constrained and limits the development of the private sector and its integration in regional and European markets. The SME sector is faced with weak financial capacities and lack of skills for access to various sources of financing. Banks in Albania allocate around 34.9% of their portfolio to large businesses, 14.1% to medium businesses, only 9.4% to small businesses, and 3.3% to microbusiness, as of August 2017. The banking sector constitutes 89.7% of the financial sector and the NPL level as of August 2017 is at 15.1%.

The loan portfolio expanded by 0.9% in August 2017 compared to the same period previous year at ALL 602.2 billion level. Accounting for write-offs, ALL 10.5 billion throughout the year, loans would have increased by 2.7%. Domestic currency lending grew by 3.3% while FX lending expanded by 7% y-o-y, supported by favourable domestic currency lending interest rates. The share of FX loans has decreased significantly from a level of 73% by the end of 2008, to 57.3% in August 2017. The remaining 42.7% belongs to domestic currency loans.

Credit to private sector was 1.1% lower than a year ago, at a time when loans to households grew by 4.5%. The share of private sector loans to total loans portfolio is 65.7% while households around 29.2%.

In terms of maturity structure, the main effect on the annual expansion of outstanding loans was attributed to medium and long-term credit, which increased by respectively 5.3% and 3% (yoy). The exposure to indirect market risk from unhedged borrowing in foreign exchange remains relatively high. Such unhedged foreign currency loans constitute around 25.7% of total loans.

All of the above become more severe due to informality, which is a major concern to economic growth, competitiveness and to public finances. Formalizing the informal economy is a serious issue that needs to be solved by the country against fiscal evasion and promote voluntary tax compliance.

To this purpose, It is approved a new Anti-Informality Action Plan on 20 December 2016, which has started to be implemented on November 1st 2017. Risk management is being implemented in the debt collection in order to increase efficiency of human resources and tax liabilities collection. In January - June 2017, the tax authorities collected from 1,065 taxpayers, in total ALL 1.9 billion in debts. Further steps are also undertaken for the collection of any such current debt.

Furthermore, during October 2017, the Investment Council discussed in a roundtable the findings of the study for the e-Permit Portal - Its Impact on Increasing Transparency and Improving the Investment Climate in the Country, with the aim to resolve possible practical issues related to the functioning of the Portal as a *One Stop Service* and specifically on: a) the deadlines for the approval of construction permits and their implementation in practice; b) the required documentation; c) institutional coordination, d) the technical aspects for the well-functioning of the Portal. Other 2 meetings were held, focusing on improving the business climate and promoting good governance including specifically the facilitation of customs procedures and finding professional skills.

2. Report on policy guidance implementation since May 2017

The EC assessment of the ERP 2017-2019, among other conclusions, highlights the importance of simplifying and eliminating unnecessary regulatory burden to business to encourage market entry and the full implementation of the National Plan to reduce the level of the NPL.

The National Business Centre (NBC) has been fully functional since 1 April 2016[24]. To further improve the business registration process, during 2017 two legal acts were approved: i) DCM No. 391 of 3.05.2017 "On the procedures of registration and publication in the National Business Centre". This act aims to improve and simplify the procedures of several work processes at the NBC, facilitating access to the services provided and reducing application time; and ii) DCM No. 392 of 3.05.2017 "On some amendments to Decision of Council of Ministers No. 503 of 1.08.2007 "On the approval of tariffs for the NBC functional services", as amended. The DCM eliminates the fee for the procedures carried out at the electronic service window of the National Business Centre (NBC), including business registration.

The reform on authorization, licences and permits is reconsidered to be implemented under the Deregulation Reform, an initiative to reduce red tape and increase the efficiency of the institutions offering services to citizens and entrepreneurs. During 2017 the working group led by MFE[25] reviewed existing legal framework on licences and permits issued by NBC and all other acts issued by agencies and institutions under MFE, with a view to abolish unnecessary requirements[26], including the reduction of licenses, facilitating procedures and improving deadlines[27]. Due to changes to the sectorial legislation, this reform is foreseen to be implemented in 2018.

[24] Law no. 131 of 26.11.2015

[25] Ministry of Finance and Economy

[26] The Order of the Minister of Finance and Economy no. 105 dated 9.10.2017 "On measures to be implemented in the context of Deregulation Reform"

[27] Order no. 101/1 dated 2.10.2017 "On the simplification of the documentation requirements for services offered to business and citizens by MFE and its agencies", reducing the number of documents required by MFE/subordinated institutions to citizens/enterprises, in order to offer its services.

as an opportunity for increasing investments.

Policies aimed at women entrepreneurs remain a real challenge for the government. To further empower the involvement of women in Albania, based on the action plan for women entrepreneurs 2014-2020, in April 2017 a round table with the inter-institutional working group and the stakeholders was held, focusing on the problems faced and possible actions to undertake.

3. Priority reform plans

Reform 9: Reduce regulatory burden to businesses

Despite recent progress made and many on-going reforms in this area, reduction of regulatory cost to business, abolishment of unnecessary procedural requirement, are still essential in order to enable long-term investment and improve business development. This reform aims at reducing licencing and requirements and provision of services for business through one single window. Based on the NSDI 2015-2020, NPEI 2016-2020, BIDS 2014-2020, and DB AP 2016-2018, this reform measure envisages the following activities:

- Improve the business licencing/permits/authorizations procedures and review the related legislative framework.

The proposed measure will be carried out in parallel to other reforms affecting business environment such as industrial policy development, support of research and innovation, reduction of the level of NPL and administrative capacity building. Therefore, establishment of solid monitoring instruments to allow timely checks on the new legislative changes is of outmost importance.

Timeline

2018

- Elimination of unnecessary licences issued by central institutions and adoption of pertinent legislative changes.
- Simplification of remaining procedures for licenses, permits and authorizations issued by central institutions and adoption of pertinent legislative changes.
-

2019

- Elimination of unnecessary licences issued by central institutions and adoption of pertinent legislative changes.
- Simplification of remaining procedures for licences, permits and authorisations issued by central institutions and adoption of pertinent legislative changes.

Cost per activity[28]

- Elimination of unnecessary licences issued by central institutions: … EUR (administrative cost) and simplification of remaining procedures for licences permits and authorisations: 37,000 EUR (administrative cost)
- Adoption of the legislative changes on the licenses and permits: no additional cost/budgetary cost is foreseen for this activity.

Budgetary impact

Total budgetary impact is EUR 37,000 for 2018; EUR 37,000 for 2019.

Expected impact on competitiveness and social outcomes

[28] Costs may change during the upcoming period, in case the above mentioned activities will be supported by specific (additional) projects to be approved within 2018. Related also to point B.3, table 10 of the reform

The deregulation reform measures will reduce administrative burden to business and focus on the binding constraints to growth and competiveness. It will improve the doing business ranking for Albania, alleviate the most stringent procedures for business operations and reduce the time and costs of administrative procedures.
Apart from that, it will help ascertain which procedures can be simplified and consequently, help reduce administrative procedures, costs and time of the functioning of the business sector, specifically with the legal changes (part of the legislation on Permits, Licenses and Authorizations), it is foreseen to remove 10 unnecessary licences and 9 authorizations and other 132 will be streamlined through the NBC system.
This reform is directly related to the opportunities for increasing investments and job promoting job creation in Albania.

Potential risks
Considering this is a comprehensive reform which engages different policymaking institutions and various interested parties, the need of a closer collaboration among all parties involved, may be considered a crucial and complex process. The implementation of some measures (of legislative nature) requires its duly time in preparing, submitting and approving the respective acts. This risk may be mitigated by preparing simultaneously the draft amendments, with the support of all involved institution in the process.

Reform 10: Effective implementation of the National Plan to reduce the level of NPL in the banking system
The Action Plan (AP) of NPLs in the banking system is a set of actions (legislative changes and other implementing activities) composed of 12 measures, with the aim to reduce the level of Non-Performing Loans. This reform is part of the national priorities to improve the access to credit for SMEs.
As of August 2017 the ratio of non-performing loans decreased to 15.1 per cent from the level of 18.41 per cent in January 2016. The reduction in the NPLs has been driven by the write-offs and non-performing loans recoveries. Actions foreseen in the Action Plan related with the amendments to the Civil Code, Civil Procedures Code, Bankruptcy Law and Securing Charges Law are already approved by the Albanian Parliament during 2016.
The implementation of different actions foreseen in the national action plan including the legislative changes is expected to contribute further in the reduction of non-performing loans stock in the near future With regards to collateral execution through the communications with the banks, the later confirmed better perspectives from the implementations of legal improvements and collateral executions.
Recently Bank of Albania finalized several changes that consisted in the clarification of the loan write-offs from the balance-sheet of the banks, the review of the supervisory treatment of repossessed collaterals taken into the ownership as a result of judicial processes, the review of the regulatory framework to facilitate the sale of NPLs and some necessary improvements in the credit registry with inputs of the banking system with loans in legal process.
With regard of lending based on tax declarations, such requirement is currently in force and applicable for the banks' large borrowers. Based on the Bank of Albania Regulation No. 10, dated 26.02.2014 "On the risk management from large exposures of banks", as amended article 11, paragraph 6, foresees "… Banks shall analyse the risk of exposure to large borrowers from the moment that the exposure was created and onward, being based on certified/audited financial statements".
The application of such requirement to a large pool of borrowers requires some coordination with the actions of the government that has announced even previously the year 2018, as the year for such intervention. BoA foresees the adaption of such requirement to a greater pool of borrowers within first quarter of 2018, despite of the challenges that it pose in terms of

application in practice, credit growth or SME financing and their access to credit etc. Such implications were attempted to be assessed internally during 2017 by BoA.
BoA with the support of international experts from World Bank and IMF is expected to finalize the so called "Tirana Approach". Beside of the guideline on loans out-of-court restructuring, BoA during 2017 has been working on to complement out-of-court guidelines with Inter Creditor Agreement, Creditor-Debtor Agreement and the specific supervisory treatment of the successful restructuring cases of multi –lenders credit facilities. Such drafted framework will be shared for final comments with banks and is expected to be finalized in early 2018.
Other actions taken from BoA during 2017 include;
- enhanced communication with banks on write-offs and restructuring of multi-lender credit facilities;
- the submission to BoA of individual banks' Recovery and Resolution Plans for large borrowers as defined in the relevant regulatory framework;
- formalization by banks of strategies for reducing non-performing loans, as well as the projections for their impact on their budget accompanied by the requirement for periodic reporting to BoA;
Lastly, the activity on the "Credit Registry" has been postponed to more reasonable timing in 2019, due to the reasons explained in point (4) below.
Two other issues, which are also a responsibility of the Bank of Albania, are the out of court debt restructuring and the coordination of banks' efforts on solving 35 large borrowers. These have been discussed with representatives of the World Bank in order to obtain international expertise on these issues based on similar experience in international jurisdictions. Through this cooperation is expected to finalize two important documents: the guideline for loans restructuring, which is the comprehensive review of current guidelines, bringing the best international principles; and a framework for cooperation between banks to properly address the issues of common borrowers (also known as Tirana Approach). Starting at the end of 2016 and throughout 2017 there has been communication in parallel with banks by addressing the issue of portfolio quality, both in terms of dealing with non-performing borrowers and the write-offs of loans categorized as lost in compliance with the regulatory obligation. Banks are also required to draft and submit to BoA Recovery and Resolution plans for large borrowers as defined in the relevant regulatory framework.
In 2017 banks are required to formalize strategies for reducing non-performing loans as well as the projections for their impact on the budget accompanied by the requirement for periodic frequency.
As mention above, the first part of recommendations *"On the improvements of credit registry",* as one of the BoA responsibility has been accomplished. Regarding the second part of the recommendations on Credit Registry in order to facilitate and to establish the appropriate infrastructure in the context of Credit scoring, assistance from European Bank for Reconstruction and Development (EBRD) is provided. Albanian Association of Banks will be supported by a consulting company to prepare a feasibility study and cooperate with the stakeholders. In March 2017, a meeting was held with representatives of the Banking Association to present a menu of solutions/models and discuss on the best model. A final decision is expected by the banks regarding the proposed business model and their commitment. The practices and the experiences of other countries do no support the involvement of central banks in providing credit scoring, and for that reason even in Albania to determine the most appropriate business model, EBRD is directly cooperating with the Albanian Association of Banks, while BoA remain committed to facilitate such process.

Timeline
2018

- Framework agreement on restructuring of out of court debt.
- Treatment of 35 groups/companies with higher debt.

- Lending based on tax declarations (application to a greater extent).

2019

- Improvement of Capital Registry (part [b] credit scoring.

Cost per activity
Loans for 2017

Budgetary impact
Actually, there is no budgetary impact regarding the implementation of the action plan regarding Non-Performing Loans. The implementation of the measures shall be realised by the experts of the BoA with the assistance of our international institutional partners such as: EBRD, the World Bank and the IMF.

Expected impact on competitiveness and social outcomes
Improvement on Credit registry will impact the way banks can rate their borrowers and increase their quality of information, hence improve the way clients compete for bank financing. The framework agreement on debt restructuring out-of-court will reduce administrative burden for both the borrower and the banks, and again will positively affect competition for bank financing. The treatment of 35 groups/companies with higher debt level, aims at effectively resolving the non-performing debt of such companies in all the ways stipulated in the law. The expectation is that these companies will restructure accordingly, having a positive impact on releasing bank resources and in returning (for some) to normal market activity. In both aspects, market competition is expected to benefit from the presence of sounder market players. Granting loans based on tax declarations has a direct impact on competition, as it improves transparency and quality of information, thus making it much harder for undue borrowers to access bank financing and distort competition. In terms of social outcomes, the presence of more efficient market players, improvements on competition and better access to bank finance, is expected to have positive implications for private investments and employment. More competition in the market is expected to increase diversity of investments and the need for a more diverse workforce. It is expected that this drive will be positive in particular for ensuring higher employment rates for the youngsters and for women, with more diverse education background.

Potential risks
There are no potential risks identified for the implementation of this reform measure.

4.3.5. Research, development and innovation (RDI) and digital economy

1. *State of play and key obstacles to competitiveness*

Within the framework of scientific research in Albania two key institutions predicted for by the law on higher education are the National Agency for Funding in Higher Education (NAFHE) and the National Agency for Scientific Research and Innovation (NASRI).
In accordance with the new law on higher education, the NASRI is tasked with the distribution of funds for scientific research programmes based on projects presented by higher education institutions. It identifies the key areas of scientific research, development and innovation and estimates at a national level the national programmes in the above mentioned fields. Moreover, NASRI is in charge for dissemination of information and for technical coordination of applications in European and international programmes including also the EU framework programme Horizon 2020. Following the obligations of the law on higher Education the NASRI was transformed by means of the Decision of Council of Ministers No. 607 dated 31.08.2016 "On the creation, organization and functioning of National Agency for Scientific Research and Innovation" (NASSRI). Within this framework, strengthening of capacities of the agency is of crucial importance for a solid development of scientific research in the country.

Based on the new law on higher education and scientific research, the NAFHE is responsible for distribution of public funds related to support of activities conducted by higher education institutions including also scientific research activities. Expenditures and investment in research in Albania has been very low. The National Strategy for Science, Technology and Innovation (NSTTI) 2009-2015 foresaw tripling GDP from 0.2% to 0.6% over the period 2009-2015. This priority is in line with the challenges predicted by the current law on Higher Education and Scientific Research, the current Strategy on Scientific Research and Innovation 2009-2015.

The telecom market ICT sector is one of the important economic sectors in the country. Albania, at this stage, needs to improve its legal and regulatory framework in order to promote the broadband infrastructure. The 2nd strategic priority of the Digital Agenda 2020 "Policy for the development of electronic communications in all sectors (health, education, environment, agriculture, tourism, culture, energy, transport, etc.)" highlights development of advanced electronic communications infrastructure main directions, together with fast and super-fast broadband. This will facilitate meeting the demand for access to fast and superfast networks for all economic sectors, citizens, businesses and the government, as a part of a large consumer of ICT. The fixed broadband penetration is very low at less than 10%. Reforms toward broadband connectivity are prominent needs to ensure economic growth and competiveness and create an investment-friendly environment for the private sector. In terms of data, there are four mobile operators in the market, about 80 fixed telephony operators, about 130 ISPs etc. The mobile penetration is 117% with over 3.1 million users based on number of active SIM cards; the fixed broadband subscriptions is 279,424, the mobile broadband Internet users are over 1.8 million. The figures for Internet users and broadband are increased year by year, but the fixed broadband penetration remains in very low levels compared with other countries in the region and the EU. In particular, the penetration for fixed broadband is 9.2%, which is among the lowest in the region and the EU. ITU report on Measuring of Information Society ranked Albania in the low level for IDI index. Fixed telephony and fixed broadband are the lowest sub-indicators in IDI index. Currently the situation of broadband connectivity in public education is far from 30 Mbps. The maximum bandwidth provided is up to 8-10 Mbps and half of schools are without or with very limited connectivity. The same situation exists also for the public health institutions which makes implementation of e-Health services difficult, especially in country's remote areas.
The new law "On the development of high-speed electronic communication networks and provision of the right of way" (Law no. 120/2016) was adopted on the 24th of November 2016.
In terms of the development of the broadband in regional level, the World Bank launched on April 2017 a Regional Study "Balkans Digital Highway" that will explore the potential of the infrastructure sharing between telecommunication sector and energy sector, in order to develop a regional broadband infrastructure. The study is expected to be finalized by the end of January 2018. The study of World Bank is focused in wholesale market and regional connectivity. In addition we need to increase the digital connectivity in national level especially to connect with fix broadband at least with 30 Mbit/s the public education facilities and health facilities, LGUs and to business units. A prefeasibility study focused in 13 municipalities in four cross border districts is done with support of UNDP. As a next step a detailed feasibility study on this purpose is needed.

2. *Report on policy guidance implementation since May 2017*

3. *Priority reform plans*

Reform 11: Improve the institutional capacity of the research and innovation system
Measure: Strengthening the capacities of National Agency for Scientific Research and Innovation
Measure: Strengthening the capacities of the National Agency for Funding in Higher Education

Timeline
2018
- Strengthening the capacities of National Agency for Scientific Research and Innovation
- Strengthening the capacities of the National Agency for Funding in Higher Education

2019
- Strengthening the capacities of National Agency for Scientific Research and Innovation
- Strengthening the capacities of the National Agency for Funding in Higher Education

2020
- Strengthening the capacities of National Agency for Scientific Research and Innovation
- Strengthening the capacities of the National Agency for Funding in Higher Education

Cost per activity
2018
Strengthen capacities of NASRI 500 Euro
Strengthen capacities of NAFHE 500 Euro
2019
Strengthen capacities of NASRI 500
Strengthen capacities of NAFHE 2000
2020
Strengthen capacities of NASRI 1000
Strengthen capacities of NAFHE 1700

Budgetary impact
Expected budgetary impact will be: 1000 EUR (2018); 2500 EUR (2019); and 2700 EUR (2020).

Expected impact on competitiveness and social outcomes
The new strategy on scientific research and innovation 2017-2020 is approved on December 2017. Within the view of the aims of this strategy and implementation of its key measures, the strengthening of institutional capacities of two key institutions such as the NASRI and the NAFHEE will contribute regarding the accomplishment of several of its goals. Such goals include improve the participation rate in Horizon 2020 programme and the increase of funds for scientific research and development in the country as well as the strengthening of the links between academia-business and government in the mid to long term. Albania, increasing funding for research and ensuring its continuity over time remains a great challenge. In parallel, governance of research institutions needs to improve in line with the aim of research excellence. Good governance in research funding implies meritocracy and transparency in grant funding, as well as accountability, evaluation and monitoring practices, transparency, and performance evaluation that can gauge contributions to knowledge, local economic and social needs, and growth. Good governance also entails having a clear rationale behind both institutional funding, which ensures stability, and project-based funding. Within this framework the National Agency for Funding of Higher Education and the National Agency for Scientific Research and Innovation represent two key institutions in the governance system of scientific research in Albania. Strengthening capacities of National Agency for Scientific Research and Innovation would enable Albania to benefit more from EU projects and to increase funding for scientific research. On the other hand, creation and proper functioning of Agency for Funding of Higher Education would enable for distribution of research grants to higher education institutions. This in turn would positively influence their capacities to conduct

scientific research and to participate in research related initiatives. The creation of both agencies would in the mid to long term positively influence scientific research and innovation development in the country. In doing so, will positively influence competitiveness and growth.

Potential risks
Obstacles to implementation of the above-mentioned measures in the area of research and development include difficulties in inter-institutional coordination. Nevertheless, the establishment of all institutions related to the law on higher education and scientific research by means of relevant bylaw acts which is already done will facilitate the process of strengthening of capacities predicted within this document. Moreover, the new strategy on scientific research and innovation 2017-2020 is approved on December 2017. All these processes will facilitate also the undertaking of ERP related actions by ensuring better coordination.
Establishment of the Institutions in one hand in compliance with the new law on higher education and the establishment of the new strategy on the other hand will contribute to overcome some of the obstacles in this area.

Reform 12: Implementation of the legal and regulatory framework for the development of the broadband infrastructure

The adoption of the new law and the respective regulatory acts, allow the establishment of the right framework for the development of high speed electronic communication networks, promoting the joint use of the existing infrastructure and the development of new physical infrastructure with a view to reduce costs through cooperation, infrastructure sharing and synergies with other utilities, the coordination of civil works and the establishment of the single point of information. Also the new law addresses the right of way issues. Part of the plan to implement this reform measure during the coming years will be:

- Review of the action plan of National Broadband Plan (NBP); The Feasibility Study and Cost-benefit analysis for Regional Broadband Infrastructure Development.

Timeline
2018

- Review of the action plan part of National Broadband Plan.

2019

- The Feasibility Study and Cost-benefit analysis for Regional Broadband Infrastructure Development.

Cost per activity
EUR 5292 - from the state budget for the review of the action plan part of the National Broadband Plan.
EUR 500000 from WBIF grant for the feasibility study of the regional broadband infrastructure development.

Budgetary impact
The budgetary impact for the National Broadband Plan review is only administrative cost of staff.
The cost of the feasibility study is expected to be covered by WBIF.

Expected impact on competitiveness and social outcomes
Digital society is one of the dimensions under "Smart growth" pillar of SEE 2020 Strategy. Development of the broadband Infrastructure is one of the important goals of this regional strategy. In line with SEE 2020 objectives, EU integration process and national program a number of measures are forecasted. The proposed reform measure is foreseen to increase the

investments in the country, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as increase the competition.
Some of the social benefits of the reform are: better broadband internet coverage which translates to social and territorial cohesion; increase of synergies across sectors e.g. smart grids and intelligent transport systems; less duplication of civil works which means less digging and/or noise pollution; improved business climate via transparent and simpler procedures for construction permits etc.

Potential risks
The digital infrastructure and other infrastructures such as transport and energy project need to be coordinated in order to benefit from synergies and joint investments. Lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector. Risk of lack of financing for the feasibility study.

4.3.6. Trade-related reforms

1. *State of play and key obstacles to competitiveness*

Albanian trade regime has not undergone in substantial changes and maintained its overall level of openness during the last year. Trade openness for 2016, as a share per GDP, reached at 54%, whereas the export/import coverage coefficient showed a slight decrease. Albanian trade exchange showed a slight improvement during 2016 having an increase in export at (0.13%) and an increase in import at (6.3%). This shows some weaknesses in trade exchange, more severe in export than import. The patterns of the main trading partners also changed and this is mainly due to the increase of the Albanian export to EU at 3.7%, a trading partner that represents 78% of total export and 63% of total import. It is to be noted also that trade with CEFTA countries during 2016 showed a reduction by 6.1%, higher in import than export, respectively 7% and 4.4%. However, CEFTA countries remain among the most important trade partners of Albania.
Albania has a very open a liberal trade regime, having very low average weighted tariff at the level of 1.30% in 2016. However, the existing market liberalization is not producing yet the expected results and trade remains under potentials, although constant increase in years is noted. The existence of non-tariff barriers remains a concern, recognised by main trading partners and as confirmed by all international reports, hindering the potentials of trade. This concern is addressed by the Government of Albania in many ways and instruments to facilitate trade are put in place. Albania's solid improvement in Doing Business 2017 (i.e. 32 places improve), having a slight improvement as confirmed by Doing Business Report 2018, World Economic Report (i.e. 13 places improve) and other international reports highlight the efforts invested in this regard.
Although Albania has a good ranking in the trading across border indicator of the Doing Business report, time and cost to import and export show weaknesses. In addition, Logistics Performance Indicator index for 2016 shows that Albania is ranked at 117th place leaving behind only Montenegro from the countries in the region.
In terms of export structure, Albania suffers from a non-diversified structure, having mainly products in the low value chain, though exports are becoming more diversified every year. The main product exported in 2016 was food industry (food, beverages, tobacco) and manufacturing industry (textile and footwear). Moreover, the coverage coefficient of exports by imports is showing weaknesses. The decrease from 46.3% in 2014 to 42% in 2016 complements the concern with regard to export structure and potential export market access limitations. Exporting markets is limited in number also. Albania exports mainly toward the countries having a free trade agreement and need to diversify are crucial.
Albania remains partially integrated into regional value chains, suffers from limited connectivity and needs to improve the quality of infrastructure is high. Interagency cooperation is still weak although the Memorandum of Understanding on border agencies

cooperation is signed. The interoperability of databases and systems of border agencies is still not complete. A stronger cooperation with private sector is required and therefore strengthening the capacities of National Trade Facilitation Committee is a necessity.

2. Report on policy guidance implementation since May 2017

The EC Assessment on ERP 2017-2019 has no explicit recommendation for trade related measures but it highlights that trade facilitation reform measure proposed is highly relevant and in line with regional initiative. In particular, the reform measure is complaint with activities and initiatives undertaken under CEFTA Additional Protocol 5 on trade facilitation.

During 2017, the National Action 2017-2020 on trade facilitation has been smoothly implemented. Measures implemented so far cover:

• Facilitation of custom procedures; Custom Code entered in force, in full, on June 1, 2017. The implementing provisions are at the approval stage. Several measures of the National Plan are implemented through this act, such as Binding Tariff Information, Origin Binding, Information, documentary simplification, etc.

• Increase transparency on trade regulation; Creation of the website of the National Committee is created providing an online platform for all actors on trade regulations and trade facilitation related activities.

• Reduce non-tariff barriers for trade; A report on "Barriers to export for agricultural products" is prepared, assessing barriers to exports and proposing measures for their elimination. The report refers in particular to areas such as risk-based inspection carried out by the National Food Authority, co-operation between border agencies, trade facilitation for selected chains value, and simplification and standardization of data on international trade. Furthermore, a report on CEFTA competition issues in value chain markets fruits and vegetables is prepared with a view to identify potential regional NTBs in the concerned supply chain. Additionally, for the elimination of non-tariff barriers (NTBs) a workshop with representatives from governmental and business community was organized in July 2017 with the assistance of EU project "Support to Facilitation of Trade between CEFTA Parties", implemented by GIZ.

• Increase awareness of business community on trade and custom facilitation; The Technical Secretariat of NTFC in close collaboration with General Directorate of Customs on 24 July 2017 a workshop was organized to inform NTFC members and other business associations on the implementing provision of the Customs Code. AEO programme was part of the program and plan for additional workshops in 2018 are elaborated.

3. Priority reform plans

Albania continues to have a balanced focus on trade facilitation and improved conditions for foreign investment, as areas of major concern to growth and competitiveness. Therefore, ERP 2017 will focus on national and regional trade facilitation agenda and attracting and increasing the level of investments in the country. The reforms measures proposed under this area will be complemented by other reform priority measures in business environment, education, R&D and innovation, sectorial reform measures, in particular transport and energy, etc.

Reform 13: Facilitate trade and reach greater synergy in the implementation of national trade facilitation measures and MAP REA

Better and greater integration to regional market, with the view to increase the export share to the region, and better address the impediments to trade a comprehensive approach will be introduced in implementing simultaneously national and regional measures in the area of trade facilitation. Although measures under MAP REA to facilitate trade are mainly regional the National Plan for trade facilitation is e complementary instrument to meet the objectives.

The reform measure will continue to focus in the implementation of the national plan with a particular attention to the electronic data exchange, effective implementation of the provisions of AP 5 and closer cooperation with private sector. The CEFTA Additional Protocol 5 is adopted and the ratification process is in progress. In addition, close attention is given to WTO Trade Facilitation Agreement commitment to ensure synergy in the implementation of all commitments, national, regional and multilateral, in trade facilitation area.
The ERP 2018 will build upon the outcomes of the measures implemented during 2017 and continue with other measures as foreseen in the national Plan 2017-2020. In addition, as AP 5 is expected to enter into force by mid-2018 and SEED+ starts the effective implementation in mid-2018 focus will be given to the implementation of the measures in respect to national data electronic exchange. The measures already proposed and introduced in ERP 2016-2018 will continue to be in this ERP and be implemented during 2018-2019. In particular:

- Effective implementation of the implementing provisions of Customs Code, including the implementation of AEO programme. This activity is e preparatory action for effective of the AP 5 respective provisions.
- Promote AEO concept with private sector through a series of B2B meetings. Mutual recognition of AEO programs under AP5 will be widely promoted among private sector to allow better knowledge among economic operators.
- Effective implementation of the MoU among border agencies involved in the import and export procedures through the institutionalisation of the network of contact persons in each agency, as provided by the MoU. The institutionalization of the network is required to allow fruitful cooperation among border agencies. In addition, based on the provisions of the MoU activities to allow electronic data exchange will be introduced. Customs database needs to interoperate with Food Authority database and other border agencies with the view to simplify border clearance procedures.
- Simplify documentary sanitary and phyto-sanitary requirement, in particular through implementation of the recommendations of the reports already prepared during 2017. In this respect, a dedicated technical working group headed by the Ministry of Agriculture and under the supervisions of the NTFC will be mandated to implement all simplification proposed.
- Strengthen the capacities of the National Committee for Trade Policy Coordination and Facilitation to implement the trade facilitation agenda is a permanent activity. The Technical Secretariat capacities needs to be further strengthened. One part-time expert from the private sector is attached to the Secretariat to allow better translation of business needs into the activities of the NTFC.

Trade facilitation measures proposed are also part of the MAP REA. The national agenda is interrelated with the regional actions of MAP REA. In particular measures related to the recognition of AEO program, removal of non-tariff barriers to trade as part of a functional dispute settlement mechanism in CEFTA, electronic data exchange as part of SEED+, etc. will impact the effectiveness of this reform measure. Ratification of AP 5 is instrumental to the implementation of many trade facilitation measures, both at national and regional level.
In addition, trade facilitation is very much related to other reform measures proposed in particular the measure related to connectivity reform measures under the sectorial area (i.e. transport and energy).

Timeline
2018

- Effective implementation of the implementing provisions of Customs Code, including the implementation of AEO programme. Promote AEO concept and mutual recognition of AEO programs under AP5 with private sector; start implementation of the recommendations with regard to barriers related to SPS. Strengthen the capacities of the NTFC

2019

- Effective implementation of the MoU, Simplify documentary sanitary and phytosanitary requirement and implementation of the recommendations with regard to barriers related to SPS, Strengthen the capacities of the NTFC

2020

- Effective implementation of the MoU; Strengthen the capacities of the NTFC

Cost per activity

Budgetary impact
The budgetary impact from state budget is only the administrative cost of staff.

Expected impact on competitiveness and social outcomes

Potential risks
This reform measure may be hindered by the administrative capacities in public institutions involved in this agenda, as well as limited capacities of the Technical Secretariat of the NTPCF. Moreover, the capabilities of the private sector to support and contribute with expertise in trade facilitation agenda remain a concern that needs to be addressed and momentum in the reform agenda ensured.

4.3.7. Education and skills

1. *State of play and key obstacles to competitiveness*

The education system in Albania faces certain challenges in virtually all of its levels that are expected to continue throughout the period 2018-2020. One of the key challenges in this respect which constitutes also a key objective of the Strategy on Pre-University Education Development, relates to improvement of the overall curricula, quality of education and professional quality of teachers at all levels of education.
Within the curricular reform of pre-university education, the development and learning standards for children aged 3-6 years, as well as the curriculum framework for pre-school education have been completed. Starting from the current school year (2017-2018), these new developments and learning standards for 3-6 years old apply to all preschool education institutions, including preparatory classes. The objective is to increase enrolments in pre-school education, and that every 5-year-old child attends preparatory classes, aiming at preparatory classes will become part of compulsory education.
During school year 2016-2017 the new curricula were implemented at all 2nd and 7th classes nationwide. The pilot phase of the new curricular package for the 3d class of basic education and for the 8th class of lower secondary education has also started. The programmes and learning areas are being piloted in 26 (3d and 8th) classes. During the current school year, the implementation of the new curricula for the 10th grade of high school has also started.
In lower secondary education, competence-based curriculum is in the last year of piloting (Classes IV, V and IX). In High Secondary Education, the assessment system based on competence-based curricula will be fully implemented in the Matura 2019.According to the results of the PISA 2015 report, for the period 2012-2015, Albania shows an improvement in PISA scores respectively from 394 (2012) to 405 (2015) regarding reading, from 397 (2012) to 413 (2015) regarding math, and from 394 (2012) to 427 (2015) regarding sciences. This improvement is also partially influenced by the inclusion of the new curricula.
Despite improvements in some aspects of education, among the key challenges is matching the education system curricula with the needs of the labour market. In order to improve the quality of education and to address the gap between needed skills and education programmes, a curricular reform is being undertaken. It seeks to re-organize curricula in a way that will ensure horizontal and vertical synergy among modules/subjects in order to

enable pupils to easily integrate in society and to be able to solve problems in complex situations. The reform aims to develop curricula based on key European Learning competences. By enabling the new curricula based on competences, the quality as well as access to education for every member of the society is positively influenced. Currently, the curricular reform is also part of the new strategy for pre-university education development 2015-2020. This reform is in line with the objectives of the National Strategy for Development and Integration 2015-2020 regarding pre-university education, and the National Strategy on Pre-University Education 2015-2020.

During 2017, the main objectives of skills development policies related to the provisioning of improved employment opportunities for all, and supplying a skilled workforce that meets labour market needs. Data from the Labour Force Survey indicate that the employment rate of graduates of secondary vocational education is 64.5% compared to 52.3% of those in possession of a high school diploma.

Following a consultative process with all interest groups, the Law No. 15/2017 "On vocational education and training in the Republic of Albania", dated 16.02.2017, was approved by the Albanian Parliament. The approval of the law represents a substantive step towards reforming vocational education and training, particularly as it addresses issues related to the structure of the system, labour market relevance of VET provisioning, VET management and financing, as well as quality assurance. More specifically, the law defines the functions and competences of central public institutions in the management of the VET system. A fundamental element of the law is the provision of financial autonomy to the public VET providers. In addition, it envisages the establishment of procedures for recognition of prior learning for vocational qualifications at level 2-5 of the AQF, thus opening the way for the validation of informal and informal learning. A Working Group was established (Ministerial Order no. 102, dated 02.05.2017), at the former Ministry of Social Welfare and Youth and was tasked with drafting the sub-legal acts that will enable the implementation of the VET law. A total of 31 by-laws (of which 21 explicitly stipulated in the law) have been drafted and are at various stages of the consultation and / or approval process.

The Task Force for further development and implementation of the Albanian Qualifications Framework was created by a Joint Ministerial Order between the Ministry of Education and Sports, No.7340 / 1 Prot., Dated 29.09.2015 and no. 4906 Prot., Dated 29.09.2015. The Task Force has completed the Draft Law of the AQF which is currently in the process of consultations with line ministries, prior to approval by the Council of Ministers and subsequently the Parliament. In cooperation with the European Training Foundation (ETF), the Task Force has commenced the work on the process of referencing the Albanian Qualifications Framework (AQF) with the European Qualifications Framework (EQF).

3,162 students graduated from secondary VET schools in the 2016-2017 academic year. The structure of students in secondary education has changed over the years in favor of vocational education. Whereas the number of students enrolled in pre-university education has decreased by 17.7 percentage points in 2016-17 compared to 2012-13, the number of students in vocational education has increased by 4.1 percentage points during the same time (INSAT). Furthermore, the number VET graduates in 2016 has increased 1.6 times compared to 2012. Data from the Tracer System developed for VET providers indicate that 42.03% of VET graduates from the 2014-2015 academic year have been employed.

In the new academic year 2017-2018, new enrollments in public VET providers reached approximately 5,700 students, whereas the overall number of students enrolled in the system exceeded 19,000. The latter represents a 1% increase compared to the previous academic year. Referring to INSTAT data, the total number of students enrolled in vocational education (private and public) schools is approximately 25,300 students. This figure amounts to 19.8% of all those attending secondary education. Beyond significant promotional efforts of Vocational Education and Training the observed increased participation in VET can also be attributed to incentives such as scholarships granted based on economic status and place of residence. The latter has promoted increased access to VET for youth residing in rural areas, which now amount to 40% of all students.

With regards to the provisioning of short-term vocational training courses through the Regional Directorates of Public Professional Training, during January-December 2016, the number of registered trainees amounted to 19,483 individuals (out of which 8,262 were women), and a total of 17,524 individual successfully complete the training and were certified. For the period January - October 2017, 14,004 persons were registered (of which 4,942 women) and 12,686 persons were certified. Analysis of Tracing System data indicate that approximately 46% of certified trainees were subsequently employed.

In 2017, funding for vocational education schools increased by 35%. State budget allocations supported the reconstruction and construction of new production bases in 8 vocational schools, as well as the purchase of needed equipment.

Effort to enhance the image of VET persisted in 2017, particularly through the organization of regional meetings and skills fairs. In April 2017, the former Ministry of Social Welfare and Youth with donor support conceptualized and organized a skills fair that aimed to promote vocational education and training in the country. It aimed to: a) expose young people (and their parents) to public VET providers and their offer; b) Organize 8 thematic skills competitions among VET providers; c) Highlight/showcase the skills of the new generation that attend VET; d) Foster competition among providers and VET students emphasizing motivational elements such as self-confidence and commitment; and, e) Offer the possibility for representatives of the private sector to meet and possibly recruit new talent. Under the slogan "I choose Vocational Education", the Skills Fair brought together 32 vocational schools, 10 public centers for vocational training, private VET providers and 18,000 visitors.

Regarding donor support to the employment promotion and skills development agenda, the EU Delegation, and the development cooperation offices of Switzerlan, Germany, Austria and Italy have all been active. The ETF, UNDP, GIZ, SwissContact, Helvetas Inter-cooperation are some of the organizations that are supporting the employment and skills development agenda in the country. The process of organization of VET providers in Multifunctional VET centers continues with the support of the IPA 2013 project.

Continued professional development of teachers is one of the main pillars of quality assurance in vocational education. Based on a thorough analysis of the pre-service and in-service system of teachers and instructors of theoretical and professional practice, two strategic documents have been drafted with GIZ support, namely a "Human Resource Development Guide to VET" and a "Concept-Paper for Initial and Continuing Teacher Training in VET".

A 24-day program "Didactic Basics in VET" has been developed and 342 teachers and instructors will be trained by the end of 2017.

The first initiative of introducing Apprenticeship Schemes with the "Youth Employment Programs for Albania" project funded by the Erasmus Program ended on 31 March 2017. In the frame of the project a Roadmap for the implementation of dual cooperative training was developed and validated with stakeholders.

A feasibility study on work-based learning models was carried out by UNDP with the aim of identifying work-based learning models introduced and implemented among the VET providers in Albania in the last five years. The study identified in total 6 WBL schemes among Vocational Education Schools and 3 WBL schemes among Vocational Training Centers, WBL in Albania remains at a relatively low to moderate level.

During 2017, the Albanian government, in cooperation with the Swiss Government, is promoting the development of innovative and sustainable relations with the private sector; in Hospitality and Tourism, Information Communication Technology (ICT) and Textile. Currently work is being done to set up a school-business network, encouraging businesses to contribute to content, training / apprenticeship and assessment at VET providers.

Lifelong learning and training are also considered instrumental to foster enterprise competitiveness and enhance labour productivity, as well as to improve job quality. Identifying and addressing educational gaps across regions and population groups has led to the main goal of the VET system to increase access for rural pupils and marginalized groups, during 2017.
NAVETQ has developed and revised 17 frame curricula of vocational qualifications (level II - IV of the AQF) during 2017. In all frame curricula, standards of delivery for students with disabilities are a mandatory requirement. Frame curricula are national standards developed in a gender sensitive language. Yet no comprehensive review has been undertaken in this perspective. All occupational standards, qualifications standards, frame curricula apply equally nationwide. NAVETQ has developed qualifications and frame curricula in sectors relevant to rural areas, such as agriculture, agri-tourism etc. Revised curricula aim to include marginalized groups to attend vocational education. These include sensitization programs, scholarships for Roma and Egyptians to attend VET and interventions in buildings to make them accessible for persons with disability. Number of R/E was 333 students and PwD is 60_. In the current year these numbers are R/E was 451 and PwD is 91.

2. *Report on policy guidance implementation since May 2017*

Recommendation 6: Enhance the capacities of employment services and their provision of active labour market measures to the unemployed and inactive. By end 2017, outline concrete plans to address undeclared work. Intensify teacher training to improve quality of teaching and support curricular reform.
Regarding the implementation of the new curricula for grades 1-3 and grades 6-8, the drafting of the new curricula for the 4th and 9th grades, preparation of the qualifying programmes, training modules, training tests for the new curricula, training of teachers of 2nd and 7th grades for the new curricula the following activities are undertaken during the reporting period:
•Reforming of pre-university education system during the reporting period was focused at increasing the quality of education system based on the new curricula that orients the process of pupil formation towards competences for lifelong learning. During school year 2016-2017 the new curricula was implemented at all second and seventh classes and is being piloted at 26 third and eighth classes in 13 RED/EO.
•The piloting of the new curricular package for the third class of basic education and for the eighth class of lower secondary education has also started. The programmes and learning areas are being piloted in 26 third and eighth classes. During the current school year, the implementation of the new curricula for the 10th grade of high school has also started.
•In March 2017 1302 school directors from all RED/EO nationwide were trained regarding the performance standards and assessment criteria for school directors.

3. *Priority reform plans*

Reform 14: Drafting and implementation of a competence based curricula and training of teachers

The National Strategy for Development and Integration 2015-2020 points out that improvement of the quality of education by means of curricular reform is one of the key challenges of the education system. Within this framework, under objective B: "Inclusive education", the strategy provides for the establishment of the new curricula based on competences at all levels of education and comparable to EU standards.

Timeline

2018

- Drafting the new curricula in pre university education for high school level and for the remaining of pre-university education system based on competences. Following what

predicted in the strategy for pre-university development 2015-2020 and the curricular reform curricula based on competences will be drafted high school level and for the remaining of pre-university education system.
- Teachers' training on the new curricula.

2019
- Piloting the new curricula. The new curricula will be piloted initially in some schools. A list for the schools where the curricula will be drafted is being drafted.
- Implementing the new curricula.
- Teachers training for the new curricula. This measure predicts for implementation of the new curricula nationwide for the above-mentioned levels.

2020
- Offering contemporary professional development for teachers training through training and qualification of teachers on the new curricula.

Cost per activity

2018
- Drafting the new curricula in pre university education for high school level and for the remaining of pre-university education system based on competences. 2410
- Teachers' training on the new curricula. 800 000

2019
- Piloting the new curricula. The new curricula will be piloted initially in some schools.
- Implementing the new curricula. 120 600
- Teachers training for the new curricula. This measure predicts for implementation of the new curricula nationwide for the above-mentioned levels. 900 000

2020
- Offering contemporary professional development for teachers training through training and qualification of teachers on the new curricula .900 000

Budgetary impact

The total budgetary impact is 1,000,410 EUR for 2018; 920,649 EUR for 2019 and 900,000 EUR for 2020.

Expected impact on competitiveness and social outcomes

The reform seeks to re-organize the curricula in such way as to ensure horizontal and vertical synergy among subjects in order to enable pupils to easily integrate into society and to be able to solve problems in complex situations. The reform aims at developing curricula based on key European Learning competences. By enabling the new curricula based on competences, the quality and access to education for every member of the Albanian society will be positively affected. Currently, the curricular reform is also part of the new strategy for pre-university education development 2015-2020.

Potential risks

There are no potential risks foreseen.

Reform 15: Improve the quality and coverage of VET while ensuring linkages with the labour market

The National Employment and Skills Strategy 2014 - 2020, is the main policy document that guides the implementation of actions related to employment and skills development in the country. The objectives will be achieved through several activities related to the modernization of VET involvement, aiming at the development of the labor market. Provision of quality vocational education and training for young people and adults are the strategic priorities of VET, in the National Strategy for the period 2014-2020. The main objective of the VET system reform is to increase the quality of education outcomes, the development of

qualifications, the attractiveness and relevance of the vocational education system and the prediction of skills to correct discrepancies and improve skills recognition. Annual progress reports of National Employment and Skills Strategy 2014 - 2020, have been finalized for 2015 and 2016 and a mid-term review of the strategy will be finalized by mid-2018.
The strategy has definitely triggered positive impact on employment and VET enrollment; however, more efforts have to be dedicated to inclusive labour market and VET.

Timeline
2018

- Complete the development of the legal framework for VET, drafting and adoption of sub-legal acts in implementation of the VET Law, adoption of the Law on AQF and institutional framework in the VET area, reconstruction of VET public providers, improvement of school equipment, extension and consolidation of partnership with business, etc.;
- Set-up of the National Agency on Employment and Skills, responsible for the day-to-day management of VET providers and assessment of capacity development needs at central, regional and local level;
- Develop a VET offer optimization plan in line with regional skills development needs;
- Define a concept for quality of VET at all levels (central, institutional and provider level) with the aim of assuring the quality of VET providers and improving the quality of VET inputs (labs and equipment, curricula, teaching curricula), processes and outcomes;
- Increasing the number of partnerships with business and social partners, creating more opportunities for gainful employment;
- Capacity development for VET teachers and trainers (by drafting policies for recruitment, professional development, assessment of competences and training of VET teachers and trainers);
- Increase of access to VET from rural areas and marginalized groups.

2019

- Roll out the VET offer optimization plan in line with regional skills development needs and the process of re-organization of VET providers;
- Continue the roll out of the quality concept both at the system level and at the level of providers. Ensure that all public providers undergo a self-assessment process;
- Skills development for VET teachers and trainers (by drafting policies for recruitment, professional development, assessment of competences and training of VET teachers and trainers);
- Increase of access to VET from rural areas and marginalized groups.

2020

- Improving the quality of VET through investment in infrastructure, programs, and professional development of teachers;
- Development of the process of introducing elements of the dual system of vocational education;
- Developing the competencies of VET teachers as well as teacher trainers (initial and on-going vocational training).

Cost per activity
The costs for implementation of the VET measures are included in the Medium Term Budget Program. For the realization of the objectives in VET, in the mid-term budget 2018-2019, a total of 73.9 million Euros for the period 2018-2020 are planned. For the year 2018, planning

for VET is in total 23.4 million Euros with an increase of 18% for VET compared to last year.29

The costs for implementing the VET measures are:
For Quality Assurance of VET Providers and Improving the Quality of VET (Laboratory and Equipment, Curriculum) inputs from the state budget are EUR 12.7 million and from donors approximately € 6 million.
Ability to develop VET teachers and trainers' professional development, competence assessment and training of VET teachers and trainers. State budget funds EUR 20.8 thousand and Financing from GIZ EUR 108 thousand.
Development of the legal framework for VET, drafting and adoption of sub-legal acts in implementation of the VET Law, and adoption of the Law on AQF. Approximately 10 thousand Euros (administrative costs).
Estimated cost per measure and budget allocation and/or donor support (The necessary budget has been planned in the Action Plan for implementation of National Strategy for Employment and Skills 2014–2020). The National Strategy on Employment and Skills (NESS) 2014-2020 will be supported by IPA 2015 "Sector Budget Support Reform Contract. The Sector Reform Contract for Employment and Skills, funded through IPA 2015 is EUR 30 million for the period 2016-2018.

Budgetary impact
Total budgetary impact is EUR 14.5 million for 2016, EUR 19.7 million for 2017 and EUR 23.4 million for 2018.

Expected impact on competitiveness and social outcomes
The reform seeks to equip young people with the training and needed skills and qualifications to compete in the labour market and increase their employment opportunities.

Potential risks
- Lack of continuous training for teachers with new technology.
- Inadequate level of coordination with businesses for better support on VET.
- Lack of specific regional assessment for skills lacking in labour market.
- Better linkages and accountability from local government for school management.

4.3.8. Employment and labour markets

1. *State of play and key obstacles to competitiveness*

Labour market data suggest that the economic growth experienced in Albania over the past four years has been translated into significant labour market improvements. Job creation recovered from a dip in 2013 and growth and employment began to move together. The employment-to-population ratio – the share of employed people in the total working-age population (people aged 15–64) – increased from 50 percent at the end of 2013 to 56 percent in 2016, one of the highest ratios in the Western Balkans. Employment rates have also significantly improved, particularly among women (from a low of 40% in 2013 to 50.6% in Q2 of 2017. More specifically, the employment rate grew by almost 8 percentage points between 2013 and 2016 for adult women (aged 30–64) and by 7 percentage points for young women (aged 15–29). Nonetheless, gender disparities remain, with men's employment rate about 14 percentage points higher than women's.

[29] Euro Exchange rate of conversion EUR 1 =140 ALL

The observed increase in employment was accompanied by an increase in labor force participation. The share of active population (job seekers and employed) rebounded after 2014 and reached 66.8 percent of the working-age population by mid-2017. Women increased their participation rate by 8 percentage points over four years, from 50 percent in 2013 to nearly 58 percent in Q2 of 2017. Nonetheless, labour force participation rates remain below European averages, with women participation rates significantly lower than men's (57.7% for women and 75.7% for men).

Youth participation rates are considerably lower than for the rest of the population (45.7% overall, with the gender gap at over 15%). The youth unemployment rate in the second quarter of 2017 declined to 26.4%, its lowest level since 2012 (with young women faring better than young men – 24.7% and 27.4% respectively). Registered unemployment has also experienced a very sharp decline (39%), from a high of over 152,000 in Q3 of 2015 to under 90,000 in Q2 of 2017.

Despite improvements, Albania still faces significant challenges in terms of ensuring secure and productive employment for its population, fostering higher and more productive job creation, and ensuring the labour market integration of vulnerable groups, especially the poor, women, and youth. Some of the main labour market challenges include:

- While unemployment rates are similar for men and women, inactivity rates are much higher for women. More than half of the jobless are inactive women, 28 percent are inactive men, 12 percent are unemployed men, and 7 percent are unemployed women.
- About one in three youth are inactive and not in any form of education and training. The group of jobless youth who are either unemployed or inactive but not in school (NEETs) make up 30 percent of the 15-29 age group, more than twice the EU average of 14.8 percent.
- Persistent long-term unemployment - Nearly three out of four unemployed have been unemployed for more than one year and more than half for more than two years. Women are more exposed to long-term unemployment than men – 47 percent have been unemployed for more than four years, compared to 39 percent for men.
- Youth unemployment remains high, reflecting the specific challenges of first-time labor market entrants. In 2017, youth unemployment rates are nearly double that of adults.
- The kinds of jobs available are still characterized by low productivity, which in turn reduces the opportunity for higher earnings. Albania has among the lowest level of labor productivity (measured as gross domestic product (GDP) per person employed) among countries in the Western Balkans, and labor productivity has yet to catch up with other countries in the region over time. Low productivity of employment reflects the structure of the workforce, which is predominantly engaged in agriculture and trade services.

The implementation of the National Strategy on Employment and Skills (NESS) 2014 - 2020 has been on-going since the end of 2014, as per the activities foreseen in the related action plan. The second NESS progress report was prepared by the Ministry of Social Welfare and Youth (MoSWY) with the objective to: (i) review the implementation of NESS activities planned for 2016, (ii) assess the level of achievement as per the expected results and targets of the NESS, particularly results and targets related to the Sector Reform Contract for Employment and Skills (2016-2018).

The results include:

- 48 out of 52 (92%) Actions have been initiated
- Progress of actions initiated reached an average of 66%
- 10% implementation progress achieved during 2016

Actions that were identified as showing limited progress are those concerning the third pillar of the strategy.

The implementation of the EU IPA Budget Support Programme has commenced and the first fixed tranche the EU sector budget was disbursed in December 2016. The NESS affirms the sectorial approach on reaching strategic objectives on better employment and skills, while at the same time strengthening cost efficiency through better governance. 9 out of 10 indicators for 2016 under the Sector Reform contract were achieved. Results include:

1. Youth employment improved annually by 2.6 percentage points and stands higher than the targeted employment;
2. Gender gap in employment narrowed by 2.8% annually, and improved by 2% percentage points when compared to the targeted gender gap in employment;
3. The share of registered unemployed jobseekers benefiting from employment promotion programs reached 4.36%, in line with the targeted results for 2016.
4. The capacities of 42 (6%) teachers/instructors of vocational education and training have been enhanced through "Basic didactics training programme in VET".
5. The monitoring system (ROMALB) on participation of Roma and Egyptian citizens in public vocational training centres and who benefit from employment promotion programmes is in place and the first report is expected to be issued by the end of 2017.
6. The new VET Law No. 15/2017 was approved by the parliament in February 2017.
7. A tracer system for all VET graduates (schools and centres) is in place.
8. 10 employment offices reorganized with the NEW Service System.
9. The revised Labor Code has been adopted by the Parliament.

The following information is according to the main pillars of the strategic priorities. Some achievements are as follows:

21 employment offices are refurbished and accessible to the public with the new employment services model. During 2017, 1 additional employment offices was reconstructed according to the European model of employment services. The latter will be expanded to an additional 15 employment offices by the end of 2018. The National Employment Services (NES) information system has seen significant improvements and represents a qualitative step in the modernization of the institution. In 2016, the system become more interactive allowing for the exchange of information with the Civil Status Information System, the Tax System, the Compulsory Health Care System of the Health Care System, and the Economic Assistance System.

Anticipated legislative changes have been under way since 2015, include the drafting of a new Employment Promotion Law. The draft law "On employment promotion" is in the process of being approved by the Council of Ministers and will subsequently undergo the process of approval by the Parliament.

A Tracking System for graduates/certified in VET system is established by NES in collaboration with GIZ project.

The new law on unemployed jobseekers (Law No. 145/2015) approved by the parliament in December 2015, and under implementation since 2016 has led to a significant reduction in the number of registered unemployed jobseekers from 145,147 in 2015 to 85,953 in September 2017. The implementation of the law has enabled employment offices to better identify those jobseekers with real employment needs.

Since 2014 funding for employment promotion programmes has been on a steady upwards trend from ALL 90 million in 2013, to ALL 270 million in 2014, ALL 450 million in 2015 and ALL 490 million in 2016. The budget allocation for the implementation of a portfolio of 7 employment promotion programs (as listed below) remained unchanged for 2017, supporting the employment of over 5,000 unemployed jobseekers (i.e. 5% of the total).

- On-the-job training
- Employment of women single heads of households
- Employment of people with disabilities
- Employment of vulnerable groups

- Employment of youth in possession of higher university degrees
- Internships for recent university graduates
- Employment promotion for orphans.

Revisions made to the programmes in 2015 (and under implementation since 2016) aimed to diversify these measures as per the needs of the target groups. Nonetheless, the range and scope of the employment promotion programmes remains very narrow. The adoption of the new employment promotion law will enable the broadening of such programmes. The impact evaluation carried out by the National Employment Service with UNDP support will guide the revamping of the programmes.
Some of the characteristics of the beneficiaries of employment promotion programmes are as follows:

- 60% of the participants are women and girls;
- 50% are youth 15-30 years old;
- 2% are people with disabilities;
- 7% of total participants are unemployed jobseekers from income support schemes.
- The long-term jobseekers involved in the programs are 42% of the total number of participants
- 4% are unemployed jobseekers from the Roma and Egyptian communities
- 2% are returning migrants
- 3% are victims of trafficking and
- 0.1% unemployed orphaned jobseekers.

Pursuant to Law No.70 / 2016 "On Crafts in the Republic of Albania", the National Chamber of Crafts is in the process of being established. Regional consultations led by the former Ministry of Social Welfare and Youth served as the for the election of members of the temporary board which is tasked with carrying out the first elections of the General Assembly.

Labour market situation
Referring to Labour Force Survey data from Q2 2017, some key labour market indicators are as follows:

- The overall unemployment rate (population aged 15-64) is 14.3%, compared to 15.2% in 2016;
- The youth (15-29) unemployment rate is 26.4% compared to 28.9% in 2016;
- The overall employment rate (population aged 15-64) is 57.7%, compared to 55.9% in 2016;
- The youth (15-29) employment rate is 33.6%, compared to 32.5% in 2016.

Administrative data from the National Employment Service (NES) on the registered unemployed for the period January-September 2017 are as follows:

- 85,953 people are registered as unemployed jobseekers in the National Employment Service, of which 53% are women:
- 48% of unemployed jobseekers are beneficiaries of social aid;
- 2% benefit from unemployment benefit;
- 53% are long-term unemployed;
- 19% are people aged 15-30;
- 7% are roma and egyptians.

2. Report on policy guidance implementation since May 2017

The improvement of the labour market governance has been a focus of attention of government institutions and social partners constantly. Moreover, efforts were made to

increase the employment giving attention to youth and vulnerable groups, to improve the VET system, and strengthen the social protection system in a gender responsive manner.
Recommendation related to ERP 2016-2018
Public policies promoting quality employment by boosting demand for labour, promoting productivity and employability through enhancing the functioning of the labour markets with effective social dialogue, public employment services and labour inspection and tackling high unemployment and inactivity, in particular of young people and women.

3. Priority reform plans

Reform 16: Modernise public employment services, increase employment of women, youth and vulnerable people
The proposed reform, part of the GoA’s priorities, NSDI, NESS 2014–2020 and social inclusion and gender equality policies, will focus on:

- Modernizing and increasing efficiency of public employment services (PES);
- Introducing new and more efficient employment promotion programs that increase women and youth employment;
- Revision of labour market legal and institutional framework.

In addition, registration, profiling and gender-sensitive counselling for jobseekers, primarily aimed at the most vulnerable groups (older women, low skilled youngsters, people with disabilities, social beneficiaries and Roma) will be offered.
Another important aspect of this reform measure entails introducing tailor-made entrepreneurship programs, internships and employment opportunities targeted at women, youth and marginalized groups as well as design and implementation of measures in relation to social entrepreneurship.

Timeline
2018

- Approval of the draft law on employment promotion and drafting the sublegal acts introducing: (i) new job creation programmes or improvement of the existing ones that will include the involvement of unemployed jobseekers in various promotion of employment schemes, public or community works, entrepreneurship programs, internships or training programs at the subsidized cost to employers aiming the most vulnerable groups etc, (ii) the New Service Model to improve the performance of services.
- Establishment of the National Agency on Employment and Skills (transformation of the National Employment Service) who will be in charge of employment service and active labour market programs but also the management of the VET providers.
- 15 employment offices will be reconstructed by 2018 according to the New Service Model.
- Share of registered unemployed jobseekers benefiting from employment promotion programs will reach 5.2%. (baseline 2014: 2.6%).

2019

- Implementation of the new and improved employment promotion programs in the aim to support the most vulnerable groups and the share of registered unemployed jobseekers benefiting from employment promotion programs will reach 5.5%.
- Improving the linkage of VET providers with the labour market and expanding VET access to those residing in rural areas.
- Implementation of the New service model in all employment offices and expanding coverage of services in the rural area.

2020

- Implementation of employment promotion programs in the aim to support the most vulnerable groups and the share of registered unemployed jobseekers benefiting from employment promotion programs will reach 5.7%.
- Expanding employment services to other municipalities.

Cost per activity
Approximately EUR 51.6 million will be available in the medium term for labour market and employment promotion programs, as follows:
National Funds – State Budget 2018 – 2020: EUR 51.6 million (MTBP, Labour market);
Reorganization of employment offices the budget 2018 – 2020 is cca 1 milion euro
Employment promotion programs cca 11 milion euro.
EU Sector Budget Support 2016 – 2018: EUR 30 million;
Italian Government Cooperation Agreement (expected) 2016 – 2018: cca EUR 2.5 million.

Other contributions: EU IPA Support to VET EUR 3.45 million (expected 2016-2017);
Swiss Government financing cca EUR 5.9 million in support programs (UNDP, Swiss contact and Helvetas implementation);
GIZ Cooperation Programme on VET cca. EUR 8.02 million (2010-2016).

Budgetary impact
Total budgetary impact is EUR 16.3 million for 2016, EUR 15.4 million for 2017 and EUR 15.15 million for 2018.

Expected impact on competitiveness and social outcomes
Increase participation in the labor market and provide employment opportunities for all. Enhance the quality of education and vocational training. Improve the quality and effectiveness of institutions and labor market services. As a result, knowledge and skills are at the heart of this inclusive economic growth model, as well as the improvement of living conditions standards for the most vulnerable groups of population, as defined in NESS 2014-2020.

Potential risks
1. Limited coordination among actors;
2. Limited human resource capacities both at the central and regional / local level, leading to delays in the reform process.

4.3.9. Social inclusion, poverty reduction and equal opportunities

1. *State of play and key obstacles to competitiveness*

Social protection, inclusion and reduction of poverty remain a priority of the Albanian government. Poverty is targeted through a coordinated cross-sectorial approach aiming to guarantee social cohesion and increased welfare of the population. GoA aims to create an enabling environment, for Albanian citizens to have equitable access to social protection and services to support adequate living standard and enhance growth and development.
Social protection and inclusion interventions focus on social assistance and services for families/individuals also minorities and vulnerable groups, being youth, women in need Roma and Egyptians, persons with disabilities, victims of trafficking, victims of domestic violence, LGBTI community, elderly, orphans, lacking basic life necessities, due to limited economic and social circumstances. Social protection lifecycle approach and better governance reduces fragmentation in policies for impact of social protection policies and programs. Total social protection expenditure is respectively 9.1.% of in 2017 and 8.9% in 2016. In the aspect of social security, increase of contributions improving the proportion of beneficiary-contributor and reducing further the deficit in the pension scheme

Major migration and demographic changes are reflected in the LSMS survey results. Poverty fell from 25.4% to 12.5 % in 2008. However, fall in remittances and stagnant economic growth caused an increase to 14.3% in 2012 whereas extreme poverty reached 2.2% in urban areas and 2.3% in rural areas.[30] An overall assessment of surveys has been that poverty gap (depth of poverty) affects rural as well as urban areas and is accompanied by increases of regional poverty. The regional level underwent a wide territorial reorganization in 2015, accounting for the social-economic conditions of the regions. Data for poverty will be updated with the results of EU–SILC (Statistics on Income and Living Conditions). This will expand the database for poverty and social exclusion significantly to assess intensity, causes and types of poverty.

Reform of the social assistance is in line with NSDI and mainly Strategy for Social Protection and Policy Document for Social Inclusion.[31] Identification of the measure results from policy analysis and focus on better targeting of households and individuals. The reform is also interlinked with specific aims of other strategies and action plans i.e. Strategy for Gender Equality; NAP for Youth; NAP for Roma and Egyptians; NAP for Persons with Disabilities; National Agenda of Rights for Children.

The National Electronic Registry for social services and disability will guarantee a fair delivery considering individual and family factors. Albania has now established the basic infrastructure for the National Electronic Registry of applicants and beneficiaries for both programs. Lack of an effective management information system (MIS) leads to inefficiencies in applying for and awarding benefits. The transaction burden for applicants and need for cross check requirements with multiple agencies at different levels of public administration not to duplicate. This will guarantee an efficient administration with increased transparency and effective responsibilities and monitoring and reduced paper-work.

Support with Economic Assistance will be replaced in the long term with "Support for reintegration" which concerns criteria and to alter the cash payment and in programs and integrated services. This will develop parallel with measures for social enterprise and community work. Unemployed job-seekers who benefit from economic aid are the target of social reintegration. Social reintegration aims at hiring or creating conditions for employment and self - employment for beneficiaries of Economic Assistance able of work since remaining in the cash payment is not a social integration alternative.

Under new legislation in the area of social services, Law 121/2016 "On Social Care Services" aims to deliver benefits both in cash for basic living conditions and through provision of adequate services. Current sub-Legal acts will serve to regulate the establishment of a social fund for social care and services funded from the state and municipal budget budgets, donations and other sources. Cash benefits, services and a referral system must be integrated to ensure social protection based on situation of planning of a package of social services, sub-legal acts will continue in line with the mapped situation of social services. The Standard Package of Services has been designed and is endorsed by the National Social Protection Strategy 2015 – 2020 to help municipalities properly plan and budget care services at local level to address the needs of their vulnerable families and children.

An objective is a coherent assessment of disability and an integral quality assurance system. For 2018, 164,410 people are expected to be covered by disability payments (persons with disabilities, carers and persons with invalidity). Piloting of the new social model of disability

[30] INSTAT, Living Standard Measurement Survey, 2002-2012. The poverty gap was 2.9 per cent in 2012 and severity of poverty increased slightly from 0.7 per cent to 1 per cent indicating greater inequality In 2016 the, Family Budget Survey was conducted from INSTAT to measure consumption and expenditure, which resulted higher for families in central urban areas and lower in the rural ones.

[31] Policy Document for Social Inclusion, Adopted with DCM Nr.87, 3.02.2016, includes a monitoring framework for poverty and social inclusion.

started on July 1st, 2017, through the use of the Management Information System on disability beneficiaries and a full database.
Increase of transparency and efficacy of systems and good governance is fundamental to social support and efficient use of funding. Development of social care services is based on the principles of decentralization and de-institutionalization for the inclusion of vulnerable groups World Bank is supporting the reform of Cash Assistance through a Loan Improving the quality of life of persons with disabilities The role of assistance is to build capacities for calculation of costs of social assistance programmes and poverty knowledge in order to avoid adverse effects.

Related developments are sub-legal acts to Law 65/2016 "On social enterprises" and on-going capacity building for professionals. New legislation sub-legal acts on social enterprises will enable the creation of small craft businesses where persons from vulnerable groups will be employed, through the state financial support in their initial start-ups.
Data in the targeted strategies for vulnerable groups concern social inclusion in education, employment and vocational training, health, housing etc. Breaking down the societal barriers will empower and increase the participation of marginalized groups in education and labour market. Data collection will improve with MIS but more should be done collect data and link data indicators with results and specific evidence for poverty and standard of living. Albania has completed a baseline report with data for Roma budgeting and hosted the regional conference on "Filling the budget gaps for Roma Strategies in 2017.
Gender Equality data[32] from INSTAT indicate gender disparities in labour market, decision-making and education indicate needs to prioritise mechanisms, legislation and oversight of implementation of National Gender Strategy through gender budgeting and quality monitoring. Participation in labour force for women and men displays gender pay gap at highest levels of managers/professionals and plant/machine operators whereas in 2016, only 26.8% of active enterprises were run by women. [33] Data Use Survey shows an increase in unpaid labour for women.[34]
Gender mechanism and referral has improved accuracy in reporting domestic violence. In this area, it noteworthy that gender budgeting has already been reflected in some Mid-term Budget Programs. On Child rights, protection and welfare, Child protection has been aligned with the territorial reform in new Law which is complemented with legal package and measures for child development are part of the National Agenda for Children and Action Plan. GoA works on increasing access to early childhood services for children of disadvantaged backgrounds.
Public expenditure for social protection must effectively reduce vulnerability, risk and impact of poverty. Policy implementation and efficient mechanisms must respond to the needs at the local level to address underlying causes of inequality and vulnerability with engagement of civil society, social partners and the private sector. Social strategies that are responsive to local level foster inclusion and equality and improve access to social protection services in rural, remote areas as well as increased awareness of the rights.

2. *Report on policy guidance implementation since May 2017*
   - Social protection and social inclusion targeting is better prioritized and designed with MIS and National Register extended to all municipalities.
   - Inter-sectorial coordination and framing has continued through the IPMG to monitor the National Action Plans.
   - SIIG was established with the presence of INSTAT in order to respond to the

[32] INSTAT Publication Men and Women 2017
[33] INSTAT, Publication Men and Women, 2017
[34] INSTAT, Albania, Time Use Survey 2010-2011

multidimensional nature of poverty and exclusion.

3. *Priority reform plans*

Reform 17: Strengthening social protection, and social inclusion measures

Timeline

2018

- Approval of relevant legislation to implement reform on Social Assistance
- Local government units' percentage of efficient use of automated MIS to process EA applicants' registration, beneficiary selection, program enrolment, and payment orders.
- Percentage of households receiving benefits for the NE program that have been screened for eligibility using the Unified Scoring Formula increase with 5%.
- Percentage of households in the poorest 10% that are covered by the Economic Aid Program from 21.6 % by mid-2017 to 38% in 2018
- Adoption of Social Model for Disability Assessment eligibility assessment.
- Increase the financial sustainability of the pension and social insurance scheme.
- Improved reporting and assessment to target poverty reduction, social inclusion and equal opportunities for vulnerable groups through monitoring of action plans for social inclusion and gender equality.

2019

- The third stage of MIS WE has been developed and tested, with expanded functions that include an integrated case management module and a connection to enable automated electronic payment compliance.
- Increase the financial sustainability of the pension and social insurance scheme.
- Functional and effective social care services based on the principle of diversification
- Increase efficiency of the economic assistance scheme, shifting from a passive to active scheme through reintegration programs and altering them with employment schemes.
- Improved reporting and assessment to target poverty reduction, social inclusion and equal opportunities for vulnerable groups through monitoring of action plans for social inclusion and gender equality.
- Application of the social model as part of evaluation of Disability.
- Statistical Indicators and Integrity Group (SIIG) to ensure consistency in the definition and use of indicators.

2020

- Efficient and full utilization of evidence of National Electronic Register in 100% regions/local government
- Increase the financial sustainability of the pension and social insurance scheme.
- Increase efficiency of the financial assistance scheme, shifting from a passive to active scheme through reintegration programs and altering them with employment schemes.
- Application of social evaluation model with efficiency and transparency.
- Improve the system for monitoring and measuring social inclusion across the policy domains of poverty reduction and social protection, employment and skills, education and training, health, basic needs, and participation and human rights.
- Improved reporting and assessment to target poverty reduction, social inclusion and equal opportunities for vulnerable groups through monitoring of action plans for social inclusion and gender equality.

Cost per activity

Budgetary impact
Total budget expenses for social Care objectives for 2018 - Mid-term Budget.
ALL 21,587,250
Total expenses for Social Care objectives 2019 - Mid-term Budget.
ALL 22,264,000
Total budget expenses for Social Care for 2020, Mid-term Budget.
ALL 23,276,000

Budget for Social Protection and Social Inclusion is foreseen in the Mid-term Budget 2018-2020.

Budget for Social Protection Strategy 2015-2020:
State budget: ALL 514,213,850
Donor support: ALL 180,944,790
Total amount expected to be disbursed from the implementation of the five indicators is EUR 11.24 million.
Budget for Social Inclusion is distributed in several sectorial and Cross-Sectorial Strategies and policy documents. Administrative costs amount to ALL 150, 000.
Monitoring and evaluation framework for social inclusion is available in the Policy Document for Social Inclusion; National Surveys.

Expected impact on competitiveness and social outcomes
Good governance, transparency and efficiency of economic aid, targeted and diversified network of social services to impact the poorest part of the families in need. Better targeting of economic aid beneficiaries will return this scheme to an active scheme to include beneficiaries in the labour market through sustainable employment of the heads of households eligible for the economic aid scheme. Social entrepreneurship sub-legal acts will increase opportunities for low income individuals to apply and participate in economic activity. Improved mechanisms for measuring social inclusion and implementation of action plans for marginalized groups in order to better evaluate and analyse policy for social inclusion.

Potential risks
Definition of roles and responsibilities in the local level is needed for improving good governance. Insufficient capacities in the local government units must be qualified to manage and deliver diversified typologies of social services. Data collection and aggregation with a focus on vulnerable groups, in order to tackle the causes and effects of poverty must be targeted to results. Technical capacity for measuring social inclusion across the policy domains of poverty reduction and social protection, employment and skills, education and training, health, basic needs, and participation and human rights in order to promote transparency and accountability in the way social inclusion is measured and used to evidence-based policy-making.

5. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Expected expenditures in the budget of the Republic of Albania include funds for the key structural reforms for the upcoming medium-term period. Budgetary expenditures are spread across the structural reforms included in the Economic Reform Programme 2018-2020. Details of the budgetary implications of the reforms can be found in table 10 of Annex 1.

In this document are included the implications that were able to be quantified until now. The capacities for carrying out this analysis, irrespective of the assistance offered via the TAIEX instrument of the European Commission, are still limited; therefore further continuous enhancing of the knowledge and capacities is required to assess the impact of budget policies.

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The drafting and preparation of the Economic Reform Programme 2018-2020 has generated an extensive working process involving several different institutions, such as: Ministry of Finance and Economy; Ministry of Infrastructure and Energy; Ministry of Education, Sport and Youth; Ministry of Agriculture and Rural Development; Ministry of Health and Social Protection, and the Bank of Albania.

The drafting and preparation of the ERP 2018-2020 was coordinated by the Ministry of Finance and Economy in close cooperation with the relevant institutions involved in the process. The MFE has been endeavoured to ensure that the ERP document showcases some of the priority structural reforms and the macroeconomic and fiscal framework of the country for the period 2018-2020. The process has received a robust political backing to move forward owing to the engagement of the senior level coordinators in the contributing institutions.

The ERP 2018-2020 cycle was officially kicked-off on 7 July 2017 in Tirana and was co-organised by the former Ministry of Economic Development, Tourism, Trade and Entrepreneurship, the OECD and the European Commission. The event enjoyed a wide participation from civil society, international organisations, public institutions, donor organisations, etc. The revised EC Guidance Note for the ERP 2018-2020 were presented by the EC; moreover, the new working plan for this cycle was agreed upon by the parties. The OECD presented the assistance it would offer with regard to the ERP process, in the form of workshops during the initial drafting stage of the document and subsequent support in the form of comments at the various stages of the work plan. The OECD's comments and feedback have been taken into consideration by the line ministries during preparation of the reform contributions.

In accordance with the ERP working plan, a workshop was organised on 6-7 September 2017 with the support of the OECD. The latter presented its comments, recommendations and general impressions on the early draft of the ERP 2018-2020 document of Albania.

On 11-13 October 2017 a TAIEX expert mission was organised for the technical coordinators from institutions contributing to the ERP. The support provided through the TAIEX instrument was aimed at strengthening the capacities of line ministries for analysing the costs of activities, and the budgetary impact of structural reforms.

The ERP 2018-2020 was shared for consultation during its drafting stage with various development and integration partners. Their comments and feedback have been taken into account by ERP coordinating institutions and reflected in full or in part, as appropriate.

ANNEX I

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	10.7	3.4	3.9	4.2	4.3	4.4
2. Current GDP at market prices	B1*g	10.7	3.2	5.6	6.1	6.4	6.7
Components of real GDP							
3. Private consumption expenditure	P3	8.6	2.9	1.8	2.6	3.4	3.4
4. Government consumption expenditure	P3	1.2	3.8	7.1	1.3	2.2	1.7
5. Gross fixed capital formation	P51	2.7	6.0	10.3	4.8	5.1	5.3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.0	-334.6	:	:	:	:
7. Exports of goods and services	P6	3.2	13.0	11.6	6.7	6.9	6.4
8. Imports of goods and services	P7	4.9	7.4	5.6	3.1	4.9	4.3
Contribution to real GDP growth							
9. Final domestic demand		12.6	4.2	4.9	3.6	4.3	4.3
10. Change in inventories and net acquisition of valuables	P52+P53	-0.1	:	:	:	:	:
11. External balance of goods/services	B11	-1.8	0.2	0.8	0.6	-0.1	0.1

Table 1b: Price developments

Percentage changes, annual averages		Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. GDP deflator	%, yoy	-0.2	1.6	1.9	2.0	2.3
2. Private consumption deflator	%, yoy	-1.3	2.4	1.6	1.8	2.4
3. HICP	%, yoy	:	:	:	:	:
4. National CPI change	%, yoy	1.3	2.0	2.7	3.0	3.0
5. Public consumption deflator	%, yoy	3.9	-2.9	1.4	1.5	1.5
6. Investment deflator	%, yoy	2.5	2.5	2.5	2.5	2.5
7. Export price deflator (goods & services)	%, yoy	-3.3	-3.1	1.5	1.5	1.3
8. Import price deflator (goods & services)	%, yoy	-1.6	-0.8	1.5	1.5	1.8

Table 1c: Labour markets developments

	ESA Code	Year 2016	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level	Level/Rate of change				

1. Population (thousands)			2,876.1	2,879.0	2,881.9	2,887.6	2,893.4
2. Population (growth rate in %)			-0.2	0.1	0.1	0.2	0.2
3. Working-age population (persons)[35]			2,005.5	2,006.1	2,006.7	2,009.2	2,011.8
4. Participation rate			66.2	67.2	68.2	69.2	70.2
5. Employment, persons[36]			1,120.2	1,160.5	1,191.8	1,223.3	1,253.9
6. Employment, hours worked[37]			:	:	:	:	:
7. Employment (growth rate in %)			6.1	3.6	2.7	2.6	2.5
8. Public sector employment (persons)			164.6	164.0	163.0	163.0	163.0
9. Public sector employment (growth in %)			0.4	-0.4	-0.6	0.0	0.0
10. Unemployment rate[38]			15.6	13.9	12.9	12.0	11.2
11. Labor productivity, persons[39]		1317.6	-2.6	0.3	1.4	1.6	1.8
12. Labor productivity, hours worked[40]			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Table 1d: Sectorial balances

Percentages of GDP	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-0.7	-0.8	-0.7	-0.8	-0.8
of which:						
- *Balance of goods and services*		-1.8	-1.8	-1.8	-1.8	-1.9
- *Balance of primary incomes and transfers*		1.0	0.9	1.0	1.0	1.0
- *Capital account*		0.1	0.1	0.1	0.1	0.1
2. Net lending/borrowing of the private sector	B.9/ EDP B.9					
3. Net lending/borrowing of general government		-1.8	-2.0	-2.0	-1.7	-1.2
4. Statistical discrepancy						

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
GDP and investment						
GDP *level* at *current* market prices (in domestic currency)	B1g	1472.8	1555.2	1650.0	1755.0	1873.0

[35] Age group of 15-64 years
[36] Occupied population, domestic concept national accounts definition
[37] National accounts definition
[38] Harmonized definition, Eurostat; levels
[39] Real GDP per person employed
[40] Real GDP per hour worked

Investment ratio (% of GDP)		26.0	27.8	28.1	28.5	28.8
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		0.7	0.6	2.9	3.5	3.4
2. Industry (excluding construction)		1.5	1.6	6.1	6.4	6.4
3. Construction		5.6	18.1	5.6	4.7	4.6
4. Services		4.6	3.1	3.8	3.9	4.1

Table 1f: External sector developments

Euro mill. unless otherwise indicated	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. Current account balance (% of GDP)	-7.6	-7.6	-6.7	-6.5	-6.5
2. Export of goods	0.7	0.9	1.0	1.1	1.2
3. Import of goods	3.3	3.6	3.8	4.0	4.3
4. Trade balance	-2.6	-2.8	-2.8	-3.0	-3.1
5. Export of services	2.4	2.6	2.8	3.0	3.2
6. Import of services	1.6	1.6	1.7	1.8	1.9
7. Service balance	0.8	0.9	1.0	1.2	1.3
8. Net interest payments from abroad	-0.1	-0.1	-0.1	-0.1	-0.1
9. Other net factor income from abroad	0.3	0.3	0.3	0.3	0.3
10. Current transfers	0.8	0.8	0.8	0.8	0.8
11. Of which from EU	:	:	:	:	:
12. Current account balance	-0.8	-0.9	-0.8	-0.8	-0.9
13. Foreign direct investment	0.7	1.2	1.2	1.1	1.1
14. Foreign reserves	0.9	1.0	1.0	1.0	1.1
15. Foreign debt	2.9	3.4	3.9	4.3	4.6
16. Of which: public	6.1	:	:	:	:
17. O/w: foreign currency denominated	:	:	:	:	:
18.O/w: repayments due	:	:	:	:	:
19. Exchange rate vis-à-vis EUR (end-year)	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (annual average)	135.3	133.3	133.3	133.3	133.3
p.m. Exchange rate vis-à-vis EUR (end-year)	-1.7	-1.5	0.0	0.0	0.0
21. Net foreign saving (lines 21-25: percentages of GDP)	137.4	134.1	134.1	134.1	134.1
22. Domestic private saving	-1.7	-2.3	0.0	0.0	0.0
23. Domestic private investment	0.8	0.9	0.8	0.8	0.9
24. Domestic public saving	1.6	1.9	2.1	2.3	2.6
25. Domestic public investment	2.2	2.5	2.7	2.9	3.2
	0.3	0.5	0.6	0.6	0.5
	0.6	0.7	0.8	0.8	0.9

Table 1g: Sustainability indicators

	Dimension	Year 2013	Year 2014	Year 2015	Year 2016	Year 2017
1. Current Account Balance	% of GDP	-9.3	-10.8	-8.6	-7.6	-7.6
2. Net International Investment	% of GDP	-35.6	-43.1	-43.1	-44.8	-47.4

Position						
3. Export market shares	%, y-o-y	1.3	-0.6	-7.0	13.7	12.0
4. Real Effective Exchange Rate[41]	%, y-o-y	-0.3	-2.0	0.5	-3.7	-4.4
5. Nominal Unit Labor Costs	%, y-o-y	111.8	120.6	120.5	120.6	120.7
6. Private sector credit flow	% of GDP	15.3	16.9	14.9	13.7	12.7
7. Private sector debt	% of GDP	48.4	48.5	45.9	44.6	42.4
8. General Government Debt	% of GDP	70.4	72.0	73.1	72.4	71.5

Table 2a: General government budgetary prospects

	ESA code	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-26.6	-1.8	-2.0	-2.0	-1.7	-1.2
2. Central government	S1311	73.5	5.0	4.5	4.5	4.7	5.1
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-28.6	-1.9	-1.6	-1.7	-1.6	-1.5
5. Social security funds	S1314	-71.5	-4.9	-4.9	-4.8	-4.9	-4.8
General government (S13)							
6. Total revenue	TR	407.0	27.6	28.5	28.2	28.1	28.1
7. Total expenditure[42]	TE	433.6	29.4	30.5	30.1	29.8	29.4
8. Net borrowing/lending	EDP.B9	-26.6	-1.8	-2.0	-2.0	-1.7	-1.2
9. Interest expenditure	EDP.D41 incl. FISIM	36.2	2.5	2.4	2.5	2.7	2.7
10. Primary balance[43]		9.5	0.7	0.4	0.6	1.0	1.5
11. One-off and other temporary measures[44]		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		245.2	16.7	17.1	17.4	17.5	17.6
12a. Taxes on production and imports	D2	180.0	12.2	12.5	12.6	12.7	12.7
12b. Current taxes on income and wealth	D5	36.0	2.5	2.7	2.8	2.8	2.8
12c. Capital taxes	D91	29.1	2.0	1.9	2.1	2.1	2.1

[41] Please explain the methodology used (deflators, trade weighing, etc.)
[42] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9
[43] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)
[44] A plus sign means deficit-reducing one-off measures

13. Social contributions	D61	77.5	5.3	5.3	5.2	5.3	5.3
14. Property income	D4	0.0	0.0	0.1	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14))[45]		84.1	5.7	6.0	5.4	5.4	5.3
16 = 6. Total revenue	TR	407.0	27.6	28.5	28.2	28.1	28.1
p.m.: Tax burden (D2+D5+D61+D91-D995)[46]		322.7	21.9	22.4	22.7	22.7	22.8
Selected components of expenditures							
16. Collective consumption	P32	139.6	9.5	9.3	9.0	8.8	8.5
17. Total social transfers	D62 + D63	176.2	12.0	12.1	11.9	12.0	11.9
17a. Social transfers in kind	P31 = D63	1.0	0.1	0.1	0.2	0.2	0.3
17b. Social transfers other than in kind	D62	175.2	11.9	12.0	11.7	11.8	11.7
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	36.2	2.5	2.4	2.5	2.7	2.7
19. Subsidies	D3	1.7	0.1	0.2	0.1	0.1	0.1
20. Gross fixed capital formation	P51	79.8	5.4	6.2	6.5	6.2	6.1
21. Other (21 = 22-(16+17+18+19+20)[47]		:	:	0.2	0.0	0.0	:
22. Total expenditures	TE [1]	433.6	29.4	30.5	30.1	29.8	29.4
p.m. compensation of employees	D1	80.0	5.4	5.6	5.5	5.3	5.2

Table 2b: General government budgetary prospects

	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
		bn NCU				
Net lending (B9) by sub-sectors						
1. General government	S13	-26.6	-31.2	-32.3	-29.7	-22.7
2. Central government	S1311	73.5	70.6	74.9	83.2	95.5
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-28.6	-25.5	-27.4	-27.7	-28.9
5. Social security funds	S1314	-71.5	-76.3	-79.9	-85.2	-89.3
General government (S13)						
6. Total revenue	TR	407.0	442.9	464.7	493.8	527.0

[45] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)
[46] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate
[47] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

7. Total expenditure[48]	TE	433.7	474.1	497.0	523.6	549.7
8. Net borrowing/lending	EDP.B9	-26.6	-31.2	-32.3	-29.7	-22.7
9. Interest expenditure	EDP.D41 incl. FISIM	36.2	37.9	41.5	47.5	50.9
10. Primary balance[49]		9.5	6.7	9.1	17.7	28.2
11. One-off and other temporary measures[50]		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		245.2	265.4	287.7	306.8	328.7
12a. Taxes on production and imports	D2	180.0	194.7	207.9	222.0	237.8
12b. Current taxes on income and wealth	D5	36.0	41.4	45.4	48.5	51.9
12c. Capital taxes	D91	29.1	29.2	34.3	36.2	38.9
13. Social contributions	D61	77.5	83.2	86.5	92.1	98.5
14. Property income	D4	0.0	0.8	0.8	0.8	0.8
15. Other (15 = 16-(12+13+14))[51]		84.1	93.4	89.6	94.0	98.9
16 = 6. Total revenue	TR	407.0	442.9	464.7	493.8	527.0
p.m.: Tax burden (D2+D5+D61+D91-D995)[52]		322.7	348.6	374.2	399.0	427.2
Selected components of expenditures						
16. Collective consumption	P32	139.6	145.2	149.1	154.7	159.7
17. Total social transfers	D62 + D63	176.2	188.7	196.7	210.2	223.5
17a. Social transfers in kind	P31 = D63	1.0	2.0	3.0	4.0	5.0
17b. Social transfers other than in kind	D62	175.2	186.7	193.7	206.2	218.5
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	36.2	37.9	41.5	47.5	50.9
19. Subsidies	D3	1.7	2.3	2.0	2.0	2.0
20. Gross fixed capital formation	P51	79.8	96.5	107.0	108.9	114.1
21. Other (21 = 22-(16+17+18+19+20)[53]		:	3.2	0.5	0.1	:
22. Total expenditures	TE [1]	433.7	474.1	497.0	523.6	549.7
p.m. compensation of employees	D1	80.0	86.3	90.0	93.4	97.1

Table 3: General government expenditure by function

[48] Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9
[49] The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)
[50] A plus sign means deficit-reducing one-off measures
[51] P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)
[52] Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate
[53] D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

% of GDP	COFOG Code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. General public services	1	6.0	2.4	2.2	2.2	2.1
2. Defense	2	0.7	0.7	0.7	0.7	0.7
3. Public order and safety	3	1.7	1.7	1.8	1.7	1.7
4. Economic affairs	4	3.1	2.3	2.8	2.7	2.6
5. Environmental protection	5	0.2	0.1	0.1	0.2	0.2
6. Housing and community amenities	6	1.9	1.9	1.9	1.8	1.8
7. Health	7	2.8	2.9	2.9	2.9	2.8
8. Recreation, culture and religion	8	0.4	0.2	0.2	0.3	0.3
9. Education	9	3.1	2.4	2.5	2.4	2.4
10. Social protection	10	9.5	9.1	9.0	9.0	8.7
11. Total expenditure (item 7 = 23 in Table 2)	TE	29.4	30.5	30.1	29.8	29.4

*This item includes: (i) debt service payments, (ii) contingency fir wages & pensions policies, (iii) reserve fund, and (iv) local government expenditures

Table 4: General government debt developments

% of GDP	ESA code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. Gross debt[54]		72.4	71.5	68.7	66.4	63.5
2. Change in gross debt ratio			-0.9	-2.8	-2.4	-2.9
Contributions to change in gross debt						
3. Primary balance[55]		-0.6	-0.4	-0.6	-1.0	-1.5
4. Interest expenditure[56]	EDP D.41	2.4	2.4	2.5	2.7	2.7
5. Stock-flow adjustment		-1.8	-2.9	-4.8	-4.1	-4.1
of which:						
- Differences between cash and accruals[57]		:	:	:	:	:
- Net accumulation of financial assets[58]		:	:	:	:	:
of which:						
- Privatization proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other[59]		:	:	:	:	:
p.m. implicit interest rate on debt[60]		3.4	3.5	3.7	4.1	4.4
Other relevant variables						

[54] As defined in Regulation 3605/93 (not an ESA concept)
[55] Cf. item 10 in Table 2
[56] Cf. item 9 in Table 2
[57] The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant
[58] Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant
[59] Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant
[60] Proxied by interest expenditure divided by debt level of the previous year

6. Liquid financial assets[61]		:	:	:	:	:
7. Net financial debt (7 = 1 - 6)		:	:	:	:	:

Table 5: Cyclical developments

% of GDP	ESA Code	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. Real GDP growth (%, y-o-y)	B1g	3.4	3.9	4.2	4.3	4.4
2. Net lending of general government	EDP.B.9	-1.8	-2.0	-2.0	-1.7	-1.2
3. Interest expenditure	EDP.D.41	2.5	2.4	2.5	2.7	2.7
4. One-off and other temporary measures[62]		:	:	:	:	:
5. Potential GDP growth (%)[63]		3.6	3.9	4.2	4.2	4.3
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		-0.3	-0.1	0.0	0.1	0.4
7. Cyclical budgetary component		-0.1	0.0	0.0	0.0	0.1
8. Cyclically-adjusted balance (2-7)		-1.7	-2.0	-2.0	-1.7	-1.3
9. Cyclically-adjusted primary balance (8+3)		0.8	0.5	0.5	1.0	1.4
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
1. GDP growth (%, y-o-y)					
Previous programme	3.4	3.8	4.1	4.2	:
Latest update	3.4	3.9	4.2	4.3	4.4
Difference (percentage points)	0.0	0.1	0.0	0.0	:
2. General government net lending (% of GDP)					
Previous programme	-1.7	-2.0	-1.8	-1.0	:
Latest update	-1.8	-2.0	-2.0	-1.7	-1.2
Difference	-0.1	-0.1	-0.2	-0.7	:
3. General government gross debt (% of GDP)					
Previous programme	71.0	68.9	66.3	62.8	:
Latest update	72.4	71.5	68.7	66.4	63.5
Difference	1.5	2.6	2.4	3.6	:

Table 7: Long-term sustainability of public finances

Percentages of GDP	2007	2010	2020	2030	2040	2050	2060

[61] AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares)
[62] A plus sign means deficit-reducing one-off measures
[63] Until an agreement on the Production Function Method is reached, countries can use their own figures (SP)

Total expenditure	:	:	:	:	:	:	:
of which: age-related expenditures	:	:	:	:	:	:	:
- Pension expenditure							
- Social security pension							
- Old-age and early pensions							
- Other pensions (disability, survivors)							
- Occupational pensions (if in general government)							
- Health care							
- Long-term care *(this was earlier included in the health care)*							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenues							
of which: property income							
of which: from pensions contributions (or social contributions, if appropriate)							
Pension reserve fund assets							
of which: consolidated public pension fund assets (assets other than government liabilities)							
Assumptions							
Labour productivity growth							
Real GDP growth							
Participation rate males (aged 20-64)							
Participation rates females (aged 20-64)							
Total participation rates (20-64)							
Unemployment rate							
Population aged 65+ over total population							

Table 7a: Contingent liabilities

% of GDP	2017	2018
Public guarantees	3.9	3.9
Of which: linked to the financial sector	0.0	:

Table 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimension	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020
Short-term interest rate[64]	Annual average	-0.3	-0.3	-0.3	-0.1	-0.1
Long-term interest rate	Annual average	0.8	0.3	0.6	0.8	0.8
USD/EUR exchange rate	Annual average	1.1	1.1	1.2	1.2	1.2
Nominal effective exchange rate	Annual average	113.9	110.1	110.1	110.1	110.1
Exchange rate vis-à-vis the EUR	Annual average	137.4	134.1	134.1	134.1	134.1
Global GDP growth, excluding EU	Annual average	3.4	3.8	4.0	4.0	4.0
EU GDP growth	Annual average	1.8	2.2	2.1	1.9	1.9

[64] If necessary, purely technical assumption

Growth of relevant foreign markets	Annual average	:	:	:	:	
World import volumes, excluding EU	Annual average	-0.2	1.6	2.5	2.5	2.5
Oil prices (Brent, USD/barrel)	Annual average	0.9	1.5	1.3	1.0	1.0
		1.3	4.2	4.1	4.1	4.1
		44.8	53.6	55.7	54.7	54.7

Table 10: Matrix of policy commitments

Reform 1: Establishment of a fiscal cadastre				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)	Not estimated	Not estimated	Not estimated	Not estimated
B.2 Direct impact on budgetary expenditure (in EUR)	Euro 10 million	Euro 10 million	Euro 10 million	Euro 2million and for 2 up-coming years
B.3 Possible non-budgetary financing (in EUR)	Euro 1.25 million[65]			
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)	Euro 1.25 million			
Total net budgetary impact				
Total impact on budgetary revenue	-	-	0.3-0.5% of GDP	0.3-0.5% of GDP
Total impact on budgetary expenditure	Euro 36 [66]Million			

Reform 2: Further liberalisation of the energy market				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)		-	-	-
B.1 Direct impact on budgetary revenue (in EUR)		-	-	-
B.2 Direct impact on budgetary expenditure (in EUR)		-	-	-
B.3 Possible non-budgetary financing (in EUR)		-	-	-
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		-	-	-
Total net budgetary impact				
Total impact on budgetary revenue		-	-	-
Total impact on budgetary expenditure		-	-	-

Reform 3: Diversification of energy sources (gasification)				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact				

[65] If this measure will be finalized on time, Albania will receive Euro 1.25 million from Sector Budget Support funds (under PFM Sector Reform Contract), but we cannot consider this amount for the net budgetary impact since we don't know if we will be eligible to receive the specific funds.
[66] The total cost estimated for 2015-2020.

(if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)				
B.3 Possible non-budgetary financing (in EUR)	0.3 million EUR	0.3 million EUR 0.5 million EUR	1 million EUR	
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)			1 million EUR 0.45 million EUR[67] 1 million EUR[68]	1 million EUR[38] 1 million EUR[39]
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure				

Reform 4: Feasibility study for the construction and upgrade of the Adriatic-Ionian Corridor				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)		0.25 mln EUR	0.25 mln EUR	
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)		0.25 mln EUR	0.25 mln EUR	
B.3 Possible non-budgetary financing (in EUR)		1.25 mln EUR	1.25 mln EUR	
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		1.25 mln EUR	1.25 mln EUR	
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure				

Reform 5: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)		7.23 million EUR	7.23 million EUR	1.61 million EUR
B.3 Possible non-budgetary financing (in EUR)		33.48 million EUR	33.48 million EUR	7.44 million EUR
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		16.49 million EUR	16.49 million EUR	3.67 million EUR
Total net budgetary impact				
Total impact on budgetary				

[67] Financing foreseen to be in grant form by WBIF for the preparation of the feasibility study and VNMS for the ALKOGAP project

[68] Financing foreseen to be in grant form by WBIF for the preparation of the detailed technical project that will connect the Vlora TPP with TAP project

revenue				
Total impact on budgetary expenditure				

Reform 6: Consolidation and defragmentation of agricultural land				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)		180000	189800	189800
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)				
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		180000	189800	189800

Reform 7: Non-food industry development policy				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)		15000 EUR	7500 EUR	7500 EUR
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		15000 EUR	7500 EUR	7500 EUR

Reform 8: Reform on the Water and Waste Water Sector				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)				
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				
Total net budgetary impact				

Total impact on budgetary revenue				
Total impact on budgetary expenditure				

Reform 9: Reduce regulatory burden to businesses				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)	n/a	n/a		
B.2 Direct impact on budgetary expenditure (in EUR)	57,000 EUR	37,000 EUR	37,000 EUR	
B.3 Possible non-budgetary financing (in EUR)	98,807.20 EUR	-	-	
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)	n/a	n/a		
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure	155,807.20 EUR	37,000 EUR	37,000 EUR	

Reform 10: Effective implementation of the National Plan to reduce the level of NPL in the banking system				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)	-	-	-	-
B.1 Direct impact on budgetary revenue (in EUR)	-	-	-	-
B.2 Direct impact on budgetary expenditure (in EUR)	-	-	-	-
B.3 Possible non-budgetary financing (in EUR)	-	-	-	-
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)	-	-	-	-
Total net budgetary impact				
Total impact on budgetary revenue	-	-	-	-
Total impact on budgetary expenditure	-	-	-	-

Reform 11: Improve the institutional capacity of the research and innovation system				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)		1000 EUR	2500 EUR	2700 EUR
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				

Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		1000 EUR	2500 EUR	2700 EUR

Reform 12: Implementation of the legal and regulatory framework for the development of the broadband infrastructure				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)				
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure				

Reform 13: Facilitate trade and reach greater synergy in the implementation of national trade facilitation measures and MAP REA				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)				
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure				

Reform 14: Drafting and implementation of a competence based curricula and training of teachers				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)		1000410 EUR	920649 EUR	900000 EUR
B.3 Possible non-budgetary financing (in EUR)				

- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		1000410 EUR	920649 EUR	900000 EUR

Reform 15: Improve the quality and coverage of VET while ensuring linkages with the labour market				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)		12,708,000	13,000,000	13,400,000
B.3 Possible non-budgetary financing (in EUR)		6,000,000	9,000,000	11,000,000
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure				

Reform 16: Modernise public employment services, increase employment of women, youth and vulnerable people				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)	13,715,556 EUR (Labour market budget for the year 2017)			
B.1 Direct impact on budgetary revenue (in EUR)	M1: 38,000 EUR M2: 3.6 million EUR	M1: 617,000 EUR M2: 4.4 million EUR		
B.2 Direct impact on budgetary expenditure (in EUR)				
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)	M1: M2: 700,000 EUR	M1: 1.4 million EUR M2: 700,000 EUR		
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure				

Reform 17: Strengthening social inclusion and social protection measures				
A. Duration of the reform	2017	2018	2019	2020
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				

B.2 Direct impact on budgetary expenditure (in EUR)		161,574.93 EUR	166,492.38 EUR	174,226.04 EUR
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		161,574.93 EUR	166,492.38 EUR	174,226.04 EUR

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2016-2018 and the ERP 2017-2019

Public Finance Management Strategy and Internal Control Reforms	
Activities planned for 2016 and 2017	1. Conduct a feasibility study; 2. Prepare the ToR and select the company to prepare the system 3. Review the legislative framework and revise if necessary 4. Start applying the property tax for all municipalities
Have the activities planned for 2016 and 2017 been implemented?	The implementation of this measure started by the end of 2016.
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	
If No, explain why not	In November 2016 was established the working group lead by deputy minister of Finance. In January 2017 some Memorandum of Understanding were signed with 4 municipalities and Electricity Company and Kosovo. During May-September the work stopped because the government was replaced with technical government, so the leader of the working group was replaced too. In September 2017 new government restarted the work, and was drafted the law which is ready for approval. Further step are in collaboration with SIDA to establish the IT system.
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	Costs need to be re-estimated. Impact on budgetary revenue is foreseen positive at level 0.3-0.5% of GDP.

Further liberalisation of the energy market	
Activities planned for 2016 and 2017	1) Further improvement of the legal and regulatory framework of the power sector. 2) The complete process of unbundling the distribution activity from the supply. The distribution activity is still functionally bundled with the supply. The power sector law requires unbundling only by 31December 2017 in contravention of the third package. DSO (Distribution System Operator) has prepared the unbundling plan and has selected a consulting company for this issue. 3) Completion of the project in the transmission system: Construction of 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM), Albania's part and upgrade of 400/220 kV Elbasan2 SS.
Have the activities planned for 2016 and 2017 been implemented?	1. Yes 2. Partially 3. Partially
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in	1) Further improvement of the legal and regulatory framework of the power sector. Albania has made important progress in aligning the internal legislation with the acquis in the field of energy The Law No 43/2015 of 30.04.2015 "On the Power Sector" is fully aligned with

implementation - Whether the reform will continue in 2018	Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 concerning common rules and the Third Particular Package of the Market Internal electricity supply and the repeal of Directive 2003/54/EC. For the implementation of this Law, the following legal acts were approved: - Decision of Council of Ministers No 244 of 30.03.2016 "On the approval of conditions for establishing public service obligations that will apply to licensees in electricity sector, which operate in generation, transmission, distribution and supply of electricity"; - Decision of Council of Ministers No 317 of 27.04.2016 "On defining the public authority that represents the state as owner of the shares in the companies in the electrical power sector" was approved. The Decision entered in force on 5.05.2016; - Decision of Council of Ministers No 449 of 15.06.2016 "On the approval of the terms and procedures to determine the suppliers of the last opportunity of electricity"; - Decision of Council of Ministers No 519 of 13.07.2016 "On approval of the Electricity Market Model", which entered into force on 22.07.2016. The approval of the Albanian Electricity Market Model is a step towards the development of the electricity market in Albania in a fully competitive energy market, in accordance with the obligations of the Energy Community Treaty; - Decision of Council of Ministers No 16 of 11.01.2017 "On approval of the procedure for the authorisation of building new interconnectors"; - Decision of Council of Ministers No 52 of 25.01.2017 "On approval of the procedure for authorisation of construction the direct lines". 2) The complete process of unbundling the distribution activity from the supply. The legal and functional unbundling of Distribution System Operator (OSHEE S.A.), which aim the unbundling of distribution from the supply activity will be carried out within December 2017 as stipulated in article 72 of the Law No 43/2015 of 30.04.2015 "On Power Sector". OSHEE S.A. has prepared the unbundling plan and has selected the COM METODI S.P.A as a consulting company for this process. The unbundling model was approved by the Supervisory Council of OSHEE S.A. and also by the Minister of Infrastructure and Energy as the General Assembly of the Company. The functional unbundling of distribution activity from the supply one is in progress 3) The Construction of The 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM The construction of the 400 kV Interconnection line Elbasani (Albania) – Bitola (FYROM) is foreseen to cost in total 70 million euro. The Council of Ministers approved its Decision of Council of Ministers No 448 of 15.06.2016 "On the approval, in principle, of the agreement between the Government of the Republic of Albania and the Government of the Federal Republic of Germany on the 2010 financial cooperation for the project "400 kV transmission

	line Albania – FYROM". The Agreement was further ratified by the Albanian Parliament with its Law No 3/2017 of 26.01.2017 "On the ratification of the Agreement between the Government of the Republic of Albania and the Government of the Federal Republic of Germany on the 2010 financial cooperation for the project '400 kV transmission line Albania – Macedonia", and the Law No 4/2017 of 26.01.2017 "On the ratification of the Agreement between the Government of the Republic of Albania and the Government of the Federal Republic of Germany on the 2010 financial cooperation for the project '400 kV transmission line Albania – Macedonia" (extension). The tendering procedure for the technical consultancy service for project preparation is in process. This project will continue in 2018.
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	No budgetary costs.

Diversification of energy sources (gasification)	
Activities planned for 2016 and 2017	2016 1. Drafting and adoption of the Gas Master Plan for Albania and Project Identification Plan, financed by a grant from WBIF. 2. Improving and strengthening the administrative capacities in the Albanian Gas Sector, financed by a grant from Swiss Government. 2017 1. Preparation and approval of the feasibility study for the gas pipeline, connecting the TAP project in the Compressor Station Area in Fieri region, with the Vlora TPP (Thermo Power Plant); 2. Preparation and approval of the Gas Master Plan for Albania and Project Identification Plan; 3. Completion and adoption of the secondary gas legislation based on the new gas law; 4. Preparation and approval of the preliminary design for the Albanian and Montenegrin part of IAP Project; 5. Preparation and approval of the prefeasibility study for the ALKOGAP Project (Albanian Kosovo Gas Interconnector)
Have the activities planned for 2016 and 2017 been implemented?	2016 1. Partially 2. Partially 2017 1. Partially 2. Yes 3. Partially 4. Partially 5. Partially
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in	2016 1. Completed all the reports for the Gas Master Plan. Remaining the study of the Project Identification Plan, and the study of Strategic Environmental Impact 2. Completed some of the Work Streams planned for 2016. Not

implementation - Whether the reform will continue in 2018	started the sub-project for the preparation of the technical rules. 2017 1. By the Consultant has started the preparation of the feasibility study for the gas pipeline, connecting the TAP project in the Compressor Station Area in Fieri region, with the Vlora TPP (Thermo Power Plant). The reform will continue in 2018; 2. Completed all the reports for the Gas Master Plan. Completed the study of the Project Identification Plan, and the study of Strategic Environmental Impact; 3. Aren't prepared and adopted all the secondary gas legislation based on the new gas law. Only one DCM is approved. The reform will continue in 2018; 4. Not started yet the preparation the study of the preliminary design for the Albanian and Montenegrin part of IAP Project. Only the Terms of references have prepared by the consultant. The reform will continue in 2018; 5. Not started yet the preparation and approval of the prefeasibility study for the ALKOGAP Project (Albanian Kosovo Gas Interconnector). Only the Terms of References have been prepared by the consultant. The reform will continue in 2018.
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	2016 1. € 1,1 million, grant from WBIF for preparation of Gas Master-Plan for Albania (Total financing) 2. € 6,6 million grant from Swiss Government for Improving and strengthening the administrative capacities in the Albanian Gas Sector (Total financing) 2017 1. Preparation and approval of the prefeasibility study for the gas pipeline, which will connect the TAP project with TPP in Vlora - EUR 300,000 Grant financed by the Swiss Confederation, in the framework of the agreement for capacity building in the gas sector in Albania. (Total financing) 2. Preparation and approval of the Gas Master Plan for Albania and Project Identification Plan - EUR 1.1 million Grant, financed by WBIF. (Total financing) 3. Finalisation of the secondary legislation on gas based on the new gas law - Administrative costs 4. Preparation and approval of the preliminary technical design of the Albanian and Montenegrin part of IAP Project - EUR 2.5 million Grant, financed by WBIF (total amount, for the Albanian and Montenegrin part of IAP Project). (Total financing) 5. Preparation and approval of the prefeasibility study for the ALKOGAP Project - EUR 0.3 million, Grant, financed by WBIF. (Total financing)

Feasibility study for the construction and upgrade of the Adriatic-Ionian Corridor	
Activities planned for 2016 and 2017	1. 2. Etc.
Have the activities planned for 2016 and 2017 been	1. Yes/no/partially 2. Yes/no/partially

implemented?	
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	

Rehabilitation and construction of the railway segment Durres-TIA-Tirana	
Activities planned for 2016 and 2017	1.General Procurement Notice and Calls for Proposals of technical assistance for: 1.1 Supervision works and project management 1.2 International consultant on implementing plan ESIA Environmental, social, health and safety Plan 1.3 TA on Review of TAC methodology Track access charges and APM Asset management plan of beneficiary project 2. Tendering procedure
Have the activities planned for 2016 and 2017 been implemented?	1. Yes 2. On-going
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	Green Economy: the provision of high-quality rail services which is fundamental for the development of sustainable transport systems which reduce CO2 emissions in line with national and EU transport policy targets.
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	In the Loan Agreement as attached in the Law 29/2017 of date 23.03.2017 and signed on 29.12.2016, this project component has been completed: Project Cost Estimates and Financing Plan in million EUR:

Project Costs & Financing Plan (EURm)	EBRD Loan	EBRD Grant	EU/WBIF Grant	Gov. of Albania	TOTAL
Civil works (incl. contingency)	36.87		32.935		69.8
Detailed design & tender documents			1.215		1.215

	Works supervision			1.5		1.5
	Implementation support			1		1
	Institution capacity strengthening		0.87			0.87
	Land acquisition				1	1
	VAT				15.06	15.06
	Total	36.87	0.87	36.65	16.06	90.45
	It shall be launched soon the procurement procedure.					

Adoption of the legal and regulatory framework for the development of the broadband infrastructure	
Activities planned for 2016 and 2017	1. 2. Etc.
Have the activities planned for 2016 and 2017 been implemented?	1. Yes/no/partially 2. Yes/no/partially
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	

Consolidation and defragmentation of agricultural land	
Activities planned for 2016 and 2017	Prepare legal amendments: 1. Law no. 171/2014 "*On the completion of legal procedures for the transfer of agricultural land of former agricultural enterprises owned by beneficiaries*", as amended. 2. Law no. 9948, dated 07.07.2008 "*On the Review of the Legal Validity of Creating Ownership Titles on Agricultural Land*", as amended. 3. Council of Ministers Decision no. 994, dated 09.12.2017 *"On the Registration of Acquisitions of Agricultural Land Owned",* as amended.
Have the activities planned for 2016 and 2017 been implemented?	1. Yes 2. Yes
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	1. Extending the deadline for the operation of the law no. 171/2014 and the law no. 9948/2008. 2. Improvements to the Council of Ministers Decision no. 994, dated 09.12.2017 "*On the Registration of Acquisitions of Agricultural Land Owned*", as amended. The legal deadline for the process of filling the property titles will be December 31, 2018. Difficulties and delays in the implementation of these laws may be caused by local government bodies and state institutions charged

	with their implementation.
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	

Introduce strategic policy for the non-food industry	
Activities planned for 2016 and 2017	1.
Have the activities planned for 2016 and 2017 been implemented?	1. Partially because: a) there was no funding available for these two studies (nickel-silicate and quartzite) in 2017; b) the leather-footwear industry study was delayed by the UNDP and AIDA, submitting it in late May 2017; c) in mid-October 2017 an independent assessment was made by the Polytechnic University of Tirana (Mechanical Engineering Department, Depth Text Mode) compared to the ToRs provided by the ministry for the requirements of such a study. As the independent assessment seeks to complete the study in the terms of reference, the MIE has formally requested to the UNDP and AIDA to complete the study within one month.
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	a) Budget support for 2018 for these two studies (nickel-silicate and quartzite); b) If the leather-footwear study is to be completed, according to the independent assessment and ToRs by UNDP and AIDA preferably within 2017, in 2018 will take these measures to support the reform. It is foreseen the promotion of the study aimed at the business community to raise interest for investing in the leather-footwear processing industry. c) Parallel to this, will carry on the promotion of the copper industry offer, by attracting investors to the copper sector and its branches/byproducts. d) Within 2018 is foreseen to conduct 2 studies for the nickel-silicate industry and quartzite and their assessment by a third party.
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	Budget support doesn't change but is shifted from 2017 and 2018 to 2018 and 2019 respectively.

Reduce regulatory burden to businesses	
Activities planned for 2016 and 2017	1.Making NBC fully operational by simplifying the procedures and reducing the time for services delivered by NBC (2016) 2.Implementation of the recommendations of the report on authorisations, (2016) 3.Review the existing licenses and permits issued by NBC (former NLC) with a view to abolish cumbersome requirements (2016) 4.Facilitate the construction permit practices through the simplification of procedures (2016) 5. Develop IT solutions to ensure effective e-permit service through the one stop shop for construction permit. (2016) 6. Improve the business registration and licencing/permits procedures through NBC (2017) 7.Consultation with stakeholders on the recommendations deriving

	from report on authorisations (2017) 8.Review the existing legal framework on licenses and permits issued by NBC with a view to abolish cumbersome requirements (2017) 9.Introduce e-platform for licences group III[69], permits and authorisation, where feasible(2017) 10.Trainings for the staff of municipalities on the e-construction system(2017)
Have the activities planned for 2016 and 2017 been implemented?	1. Yes 2. Partially 3. Partially 4. Yes 5. Yes 6.Yes 7.Partially 8.Partially 9.Yes 10.Yes
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	The reform will continue in 2018. 1. The National Business Centre (NBC) was established by law no. 131, date 26.11.2015, providing a one-stop shop for business registration and licensing and is fully operational; The Law entered into force in April 2016; No difficulties were encountered for the implementation of this specific measure; This measure will not continue in 2017 considering is fully implemented; 2. Consultations with the Inter-institutional working group are held. The process of authorization reform, due to some changes of the sectorial legislation, is on-going. 3. The Inter-institutional working group designed a detailed map of existing licences and permits. This reform will continue in 2018 within the process of deregulation by proposing concrete procedures to be removed and respective legal amendments to be adopted. 4. (Making operational the e-construction system) The system become functional on April 2016; no difficulties were encountered in implementing the measure. 5. Currently, the applications for construction permits are submitted and examined and permissions are granted via the e-Albania portal, at https://www.e-albania.al/sherbimi.aspx?kodi=6093#; the e-construction system was tested on 24 – 31 February 2016 and the system became functional in 20th of April 2016. Since 1 September 2016 all application are done through online system which is obligatory; they were no problems and no difficulties during the implementation. 6. Approval of the Decision of Council of Ministers No 391 of 3.05.2017 "On the procedures of registration and publication in the National Business Centre". This act improves and simplifies the work steps and respective timelines within NBC, by reducing some procedure barriers. Decision of Council of Ministers No 392 of 3.05.2017 "On some amendments to Decision of Council of Ministers No 503 of 1.08.2007 "On the approval of tariffs for the NBC functional services" as amended eliminates the fee for the procedures carried out through the electronic service window (e-window) of the National Business Centre (NBC), including business

[69] Licenses issued by other line ministries

	registration. 7. The recommendations have been recirculated for comments in line ministries during 2017. This process is on-going due to structural changes. 8. The legal package has been drafted by NBC. This measure has been integrated into the overall deregulation reform initiated by the end of 2017 by GoA[70] and will continue under a more comprehensive approach in 2018. 9. All licences and permits are requested through the e-portal (e-Albania). 10. Trainings were organised in 2 sessions for all 61 Local Government Units: (phase 1: 06-19.04 2016; phase 2: 25.04-11.05 2016; phase 3: 25.04-11.05 2016; phase 4:25.04-11.05 2016). http://www.azht.gov.al/al/e-leje.trajnime
If No, explain why not	-
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	-

Effective implementation of the national plan to reduce the level of NPL in the banking system	
Activities planned for 2016 and 2017	1.Approve a new bankruptcy law and respective guideline complaint; 2. Facilitate collateral execution inter alia by introducing amendments in the Civil Code Procedures. 3.Conduct regulatory changes by Bank of Albania to revise the terminology on write-offs; 4. Improvement of the Credit Registry; 5.Framework agreement on restructuring of out of court debt; 6.Treatment of 35 groups/companies with higher debt;
Have the activities planned for 2016 and 2017 been implemented?	1. Partially/On Going 2. Yes 3. Yes 4. Partially/On Going 5.Partially/On going 6. Partially/On going
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	1. Approve a new bankruptcy law and respective guideline complaint: Description of steps taken: The main objective of the Law no. 10/2016 dated 27.10.2016 "On bankruptcy", approved by the Albanian Parliament is to define binding and equal rules aiming at facilitation of resolution and also collective repayments of debtor obligations in a bankruptcy proceeding. At the same time, this law regulates the classification of creditors and their rights during the bankruptcy proceedings, as well as the rights of the creditor to create the creditors committee and define the main functions of this committee. 2. Facilitate collateral execution inter alia by introducing amendments in the Civil Code Procedures: Description of steps taken: The main objective of the Law no. 10/2016 dated 27.10.2016 "On bankruptcy", approved by the Albanian Parliament is to define binding and equal rules aiming at facilitation of resolution and also collective repayments of debtor

[70] Refer to point 2 of the reform area.

	obligations in a bankruptcy proceeding. At the same time, this law regulates the classification of creditors and their rights during the bankruptcy proceedings, as well as the rights of the creditor to create the creditors committee and define the main functions of this committee. 3. Conduct regulatory changes by Bank of Albania to revise the terminology on write-offs: Description of steps taken: By the Decision no.50 of the Bank of Albania Supervisory Council were realised some amendments to the regulation "On credit risk management by banks and branches of foreign banks".These amendments regulates the obligation of the commercial banks to writte- off the non-performing loans from their balance sheet. Amendments to this regulation defines that files regarding the non-performing loans should be maintained for a period of six month and reviewed not less than once every six months from the Board of Directors. 4. Improvement of the Credit Registry; Description of steps taken: Starting at the end of 2016 and throughout 2017 there has been communication in parallel with banks by addressing the issue of portfolio quality, both in terms of dealing with non-performing borrowers and the write-offs of loans categorized as lost in compliance with the regulatory obligation. Banks are also required to draft and submit to BoA Recovery and Resolution plans for large large borrowers as defined in the relevant regulatory framework. In 2017 banks are required to formalize strategies for reducing non-performing loans as well as the projections for their impact on the budget accompanied by the requirement for periodic frequency. Regarding the second part of the recommendations on improvement of Credit Registry in order to facilitate and to establish the appropriate infrastructure in the context of Credit scoring, assistance from European Bank for Reconstruction and Development (EBRD) is provided. Albanian Association of Banks will be supported by a consulting company to prepare a feasibility study and cooperate with the stakeholders. In March 2017, a meeting was held with representatives of the Banking Association to present a menu of solutions/models and discuss on the best model. A final decision is expected by the banks regarding the proposed business model and their commitment. The practices and the experiences of other countries do no support the involvement of central banks in providing credit scoring, and for that reason even in Albania to determine the most appropriate business model, EBRD is directly cooperating with the Albanian Association of Banks, while BoA remain committed to facilitate such process. This measure will be implemented on 2018. 5. Framework agreement on restructuring of out of court debt; BoA with the support of international experts from World Bank and IMF is expected to finalize the so called "Tirana Approach". Beside of the guideline on loans out-of-court restructuring, BoA during 2017 has been working on to complement out-of-court guidelines with Inter Creditor Agreement, Creditor-Debtor Agreement and the specific supervisory treatment of the successful restructuring cases of multi –lenders credit facilities. Such framework will be shared for final comments with banks and is expected to be finalized in

	early 2018. With regard to restructuring of out of court debt, this issue has been discussed with representatives of the World Bank in order to obtain international expertise based on similar experience in international jurisdictions. Through this cooperation is expected to finalize two important documents: the guideline for loans restructuring, which is the comprehensive review of current guidelines, bringing the best international principles and a framework for cooperation between banks to properly address the issues of common borrowers (also known as Tirana Approach). This measure will be implemented on 2018. 6.Treatment of 35 groups/companies with higher debt; With regard to restructuring of out of court debt, this issue has been discussed with representatives of the World Bank in order to obtain international expertise based on similar experience in international jurisdictions. Through this cooperation is expected to finalize two important documents: the guideline for loans restructuring, which is the comprehensive review of current guidelines, bringing the best international principles and a framework for cooperation between banks to properly address the issues of common borrowers (also known as Tirana Approach). This measure will be implemented on 2018.
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	

Improve the institutional capacity of the research and innovation system	
Activities planned for 2016 and 2017	For ERP 2016 2018 the following activities were planned: 1. Creation of the National Agency for Scientific Research and Innovation. 2. Creation of National Agency for funding in higher education. 3. Capacity building trainings for National Agency for Funding in Higher Education and NASSRI. For ERP 2017-2019 the following activities were planned: 1. Creation of the National Agency for Funding in Higher Education. 2. Capacity building trainings for both Agencies.
Have the activities planned for 2016 and 2017 been implemented?	For ERP 2016-2018: 1. Yes 2. No 3. On-going For ERP 2017-2019 1. Yes 2. On-going
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	This is an on-going measure therefore during the timeline 2016-2017 the two agencies National Agency for Scientific Research and Innovation in (2016) and the National Agency for Funding in Higher Education were created. Work will continue concerning their capacity building also during 2018.

If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	No deviations predicted.

Drafting and implementation of a competence based curricula and training of teachers	
Activities planned for 2016 and 2017	ERP 2016-18 1. Drafting and piloting of the new curricula 2. Training of staff from central and local institutions on the new curricula 3. Training of teachers on the new curricula ERP 2017-19 1. Drafting of new curricula for classes IV, V and VI 2. Training of teachers on the new curricula
Have the activities planned for 2016 and 2017 been implemented?	2016-2018 1. Partially/On-going 2. Partially/On-going 3. Partially/On-going 2017-2019 1. Partially/On-going 2. Partially/On-going All reforms are on-going from 2016 onwards as below explained
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	During 2016, the Ministry of Education and Sports (MES) has realized several activities with regard to the implementation of the curricula reform, and the professional development of teachers. During the year 2016, the new curricula based on competences were implemented initially in the first and sixth grades in all basic education institutions nationwide. Also the new curricula for general high school (classes X-XIII) are being implemented. Drafting and implementation of the new curricula in the remaining cycles will continue also during the 3 year period 2017-2019 2and 3 In implementation of the new curricula documents, the Institute for Education Development (IED) has increased the capacity building and professional development of teachers by providing trainings for teachers of second, seventh and tenth grades. During the period May-September 2016 around 1200 teachers from second and seventh were trained. Trainings of teachers on the new curricula will continue also during 2018. For year 2017 Regarding the implementation of the new curricula for grades 1-3 and grades 6-8, the drafting of the new curricula for the 4th and 9th grades, preparation of the qualifying programmes, training modules, training tests for the new curricula, training of teachers of 2nd and 7th grades for the new curricula the following activities are undertaken during the reporting period: • Reforming of pre-university education system during the reporting period, was focused at increasing the quality of education system based on the new curricula that orients the process of pupil formation towards competences for lifelong learning. During school year 2016-2017 the new curricula was implemented at all second and seventh classes and is being piloted at 26 third and eighth classes in 13 RED/EO.

	• The piloting of the new curricular package for the third class of basic education and for the eighth class of lower secondary education has also started. The programmes and learning areas are being piloted in 26 third and eighth classes. During the current school year the implementation of the new curricula for the 10th grade of high school has also started. • In March 2017 1302 school directors from all RED/EO nationwide were trained regarding the performance standards and assessment criteria for school directors. • Two important legal acts are drafted namely Guidance No.1, dated 20.01.2017 "For the functioning of the system of continuous vocational development of education personnel" and Order of Minister of Education and Sports No. 75, dated 16.02.2017 "For the establishment of the commission for accreditation of training programmes for education personnel in pre-university education". In compliance with these two acts the request by MES has been announced on the need for training and qualification of education personnel as well as the portal for application of the training and qualification programmes by relevant operators that will compete for this service is functional.
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	No costs foreseen.

Improve the quality and coverage of VET while ensuring linkages with the labour market	
Activities planned for 2016 and 2017	1- Drafting and approval of by-laws for the new Law on VET 2- Implementation of a National Qualifications Framework. 3- Increased competencies for teachers of VET institutions. 4- Investment in laboratory and cabinet equipment, review and development of new curricula 5- Connecting with the private sector through apprenticeship schemes. 6- Provide inclusive vocational education and training.
Have the activities planned for 2016 and 2017 been implemented?	1. Partially/on going 2. Partially/on going 3. Yes/ 4. Yes/ 5. Yes 6. Partially/on going
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	1. During 2017, Law 15/2017, dated 16.02.2017 "On Vocational Education and Training in the Republic of Albania" was approved. The working group has drafted by-laws and continues work on finalization of subsidiary acts pursuant to the above law. 2. Task Force for the further development and implementation of the AQF has completed the Draft-Law on AQF which is now in the process of approval. In cooperation with ETF, Task Force continues to work on the Referencing Process of AQF with the European Qualifications Framework. 3. During 2016-2017, from continuing qualification of teachers were trained and are in the process of training through the 24-day "Didactic Basics of VET" program, 342 teachers and instructors 4. In the time-frame 2016-2017 was invested in the reconstruction and construction of schools and production base in 16 professional schools. In 33 schools of vocational education and training was invested from state budget in equipment with laboratories and

	professional cabinets. Revised curricula was outlined and drafted to adapt to the labour market 5. In the period 2016-2017, Project for Apprenticeship Schemes was implemented, which ended on March 31, 2017. The project was piloted in 2 professions: receptionist and chef with 106 students of two AFP schools (Tirana and Kamza). 6- Increased access to VET in rural areas and higher number of students attending vocational education in rural areas with 40% of the total number of pupils in professional training. 7-The revised curricula and improved accessibility in buildings and environments aim to increase the participation to training of marginalized groups in vocational education. In the current school year, 451 registered students attending are Roma and 91 students are PwD.
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	11,000,000

Modernise public employment services, increase employment of women, youth and vulnerable people	
Activities planned for 2016 and 2017	• 19 employment offices have been refurbished and have become accessible to the general public with the new employment services model. The service model is going to be used in all the employment offices. • Employment promotion programs were implemented during 2016 and 5211 unemployed jobseekers are engaged in these programs. Employment promotion programs1, that are being implemented for 2016 are as follows: 1. Employment promotion for vulnerable groups 2. On - the - job training 3. Employment promotion of young graduates (bachelor or master) to 30 years old. 4. Employment promotion of women heads of households with dependent children and young mothers 5. Employment promotion of persons with disabilities 6. Internship for young graduates 7. Employment promotion for orphans In 2016, the State Budget was 490 million lekë for Employment promotion programs. These programs were implemented during this period 2016 and until now 5211 unemployed jobseekers are engaged in this programs, divided by different categories are as follows: • 469 graduate students are pursuing professional practices in 94 subjects where the majority are institutions of public administration, education, health, etc. bank • involved in these programs are 53 people with disabilities, mainly aged up to 40 years and secondary education2. • From the new program for employment of young graduates, the newly implemented during 2016 benefited 31 unemployed jobseekers from this category. • 394 programs are included in the unemployed jobseekers' schemes income support or 9% of total participants. • Long-term unemployed persons involved in the program are 896 or 19% of total participants.

	• As regard to other targets have 152 unemployed persons including Roma, immigrants turned 26 and 2 orphan unemployed jobseekers. Novelty for this year in Employment promotion programs are: • 3 new programs were introduced to implement for orphans, for women and girls in difficulty and for hiring unemployed workers with higher education. • New ALMP for people with disabilities was implemented during this period; • New program for household women and girls with children under the age of 18 was implemented during this period (2016). • New program on employment promotion of the orphans aged 16 – 30 was implemented during 2016. • The adoption of the Law on Crafts (as of June 30.2016) establishes the Chamber of Crafts and regulates the apprenticeship scheme in the sector in line with the German model of dual vocational training. • Employment Promotion Draft Law continues procedures of approval by the Council of Ministers and then in parliament. • Crafts Law No.70/2016 was approved in parliament, on 30 June 2016 • Employment offices have cleared unemployed jobseekers lists, identifying those job seekers who are interested in finding a job. Thus the number of unemployed decreased from 145 147 in December 2015 to August 2016 in 115.548. • The first progress report of The National Employment and Skills Strategy 2014-2020 came up with relevant recommendations and steps to be taken during 2016-2017. • Increased number of young people, or people who have completed higher education, requiring new services at employment offices. 13.211 unemployed job seekers at national level have been employed from employment offices.
Have the activities planned for 2016 and 2017 been implemented?	Yes/partially
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	MSWY has improved the package of employment promotion programs has been revised and improved each year, according to the recommendation of the study. These improvements includes some adjustments to existing programs and three new programs, aimed at increasing transparency, enhancing the efficiency of the funds used, and a much greater involvement of unemployed applicants and employers. New programs bring a better targeting of unemployed, to respond to needs that more labour market today. The preparation of the first Annual Progress Report on the implementation of the NESS 2014-2020 was developed in a close cooperation between the MoSWY, its main public institutions responsible for the interventions in the sector and other line Ministries and the international development partners active in this field. Also, unemployment benefit package is reviewed and improved in

	2016. 19 employment offices were reorganised basing on the new NES service model (3-tiered service delivery). Improvement of intermediation and performance management for regional employment offices, according to the new NES service model is focused in designing a practical Management Model and Intelligent Job Matching System for the Regional Labour Offices. The website www.puna.gov.al is fully operational, updated regularly and accessible to all. A qualitative step in the modernization of the National Employment Service (NES) was the full conception and installation of the Information System of Employment Services. All the reforms undertaken in implementing The National Strategy on Employment and Skills (NESS) 2014 – 2020), and that will continue for the years 2017 to 2018 will lead to achieving this goals: Reorganization of the employment offices and employment services; Approval of New Law "On employment promotion" and drafting bylaws package, which this law authorizes. Implementation of employment promotion programs with the involvement of specific groups in these programs
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	1,929,960,490 ALL (for the year 2016)

Strengthening social protection and social inclusion measures	
Activities planned for 2016 and 2017	1. The National Electronic Registry for Economic Assistance Management was extended to the local government during 2017. 2. Increase of financial stability for social security 3. Shift of the financial assistance scheme from a passive scheme to an active scheme through reintegration programs and alternation with unemployment schemes 4. In 2017, over 5% of beneficiaries in the social reintegration scheme were part of active labour market policies, creating packages with integrated services and employment opportunities; 5. Functional and effective social services based on the principle of diversity and decentralization. 6. IPMG monitored consistently strategies for statistics and use of indicators.
Have the activities planned for 2016 and 2017 been implemented?	1. Yes 2. Yes 3. Yes 4. Yes 5. Partially/On-going
If yes/partially, include: - Description of steps taken - Timeline of implemented actions - Difficulties and delays in implementation - Whether the reform will continue in 2018	1. Social assistance reform has been supported with legislation to push forward the implementation. Law 121/2016 "On Social Care Services" 2. National Electronic Registry for Economic Assistance Management infrastructure was extended to the local government during 2017. 2. 90 percent of local government units (municipalities / communes) use MIS for Economic AID to process applicants' registration, beneficiary selection; entry into the program, and NE payment orders.

	3. MIS has expanded to cover second-tier functions, including module for monitoring and evaluation and tracking key indicators to monitor performance of both programs.. Specifically, these indicators are closely linked to the implementation of the new NE scheme across the country. 4. Abusive cases decrease in assessment of disability 5. Social reintegration plan has previewed the steps to this measure and alternation to unemployment schemes has already produced initial results. For 2016, 423 unemployed jobseekers were involved in job promotion programs from income support schemes or 8% of general participants. In the first 6 months of 2017, 294 unemployed jobseekers, or 7% of the total jobseekers, are involved in these programs beneficiaries of social services will be followed up within this year. 6. Functional and effective social services based on the principle of diversity; New Law on Social services Nr. 44/2016, Dt.14.04.2016, "For amendments and additions to Law nr. 9355, dt. 10.3.2005, "On aid and social services" as amended has been approved to improve governance for services. Law no. 121/2016 dt 24.11.2016 "On Social Care Services in Republic of Albania" 7. In 2017, over 5% of beneficiaries in the social reintegration scheme will be involved in active labour market policies, creating packages with integrated services and employment opportunities; 8. Increase financial sustainability for pension schemes and social security. 9. A set of indicators and statistics integrity to ensure consistency in the definition and use of indicators. Group for Statistics is working on specific methodology and definitions; Ministries have included more indicators in policy making and budgeting: based on males and females yearly report for Roma and Egyptians for indicators related to budgeting.
If No, explain why not	
Actual cost of implementation and impact on the annual budget (indicate deviation from estimated costs if any)	EUR 120,000,000

ANNEX II

EXTERNAL CONTRIBUTIONS TO THE ERP 2018-2020

The Economic Reform Programme for the medium-term period 2018-2020 was disseminated for consultations to several international organisations, partners for development, diplomatic missions to Albania, etc. The collection, consolidation, and reflection of contributions, recommendations, comments and assessments delivered by the aforementioned stakeholder groups has been extended in time throughout the ERP drafting and preparation process.
In this annex you will find the external contributions to the ERP 2018-2020. Where possible, the feedback received by the external stakeholders has been incorporated in the document in coordination with the responsible ministries. The document has undergone several revisions since the time of receiving the feedback, as a result some inconsistencies might occur when referring page numbers or even a particular issue.

The World Bank

Energy

The document rightly touches on most of the key issues: Power exchange; mainstreaming of Renewable energy, besides hydro; energy supply diversification through natural gas utilization; renewed distribution loss reduction efforts to reduce import dependency; institutional unbundling of the distribution sector; and further regional integration as per the Berlin process.
There are three elements missing, the 1st one is *Governance/Institutional reform at SOE* level and greater independence of the regulatory agency, which has been missing from the reform process. As it is proposed in the ERP, the unbundling on one company into four, is just multiplication of functions, which in a small system such as Albania's power system, will lead to more costs and less accountability vis-a-vis price transfer allocations among the companies in the holding. The Power sector's annual turnover is about euro 500 million/year, yet basic and experienced independent supervisory board members are non-existent.
We recognized this as an issue needing to be addressed during project design (Sector Recovery Project) during a 2nd phase of implementation, starting with the creation of the power exchange and balancing market, which will force these SOEs to behave in a more transparent way. However, more work needs to be done soon.
Second, the text fails to recognize the *vulnerability of the sector to weather events*, as this year drought has shown, which compounded by the slowed down in the loss reduction program is posing once again fiscal risks. There is an added urgency in having an updated Financial recovery plan approved by the COMs, this is more urgent than the outlined gas gasification program highlighted in the ERP.
And third, the *Sector's investment plan is needs to be properly ranked* on a cost/benefit basis, starting with the loss reduction program. The charts shown in the document do not show the full picture, under which the system still loses or does not collect close to a third of the electricity it purchases.

Financial Sector

Access to finance is rightly recognized as an important impediment in the ERP. However the program is silent on needed reforms for enhancing access to finance for SMEs and deepening/diversifying the financial sector.
Secondly, the ERP draft proposes a reform (continuance) for reduction of NPLs. However, there is no mention of a "revived" action plan or new matrix of actions – work which started last May.

Swiss Embassy

General comments

- Overall, it is a well-developed document prioritizing a total of 17 reform actions.
- The ambitious reform actions are aligned with the objectives of the NSDI.
- Timely implementation of this reform agenda in the reality will face challenges related to various factors of commitment, support, capacities and allocation of financial resources.
- The document would benefit from some careful editing to streamline the numbering of the reform actions (Example: sometime it talks of 17 reform actions and later on talks about 16 reform actions; a specific reform action does not get always the same number).
- We welcome that efforts are made to articulate the expected impact on social outcomes (i.e.: higher employment rates, more diverse education background);
- We commend that modernization and digital orientation of the reform actions are quite present.

Public Finance Management

- We agree with identified key obstacles, which are in line with recent diagnostic (e.g PEFA, IMF Art. IV).
- We are of the opinion that not all of these obstacles can be "addressed through the PFM reform", as is stated in the paragraph (pg. 7)
- The discussion on PFM lacks a clear relation/reference to the PFM strategy implementation status
- As a reform plan only the establishment of a fiscal cadaster is presented. It is not clear to us what the other elements presented in the table on p. 9 represent. Are these also reform actions, but they are not part of a reform plan? The EPR should be more clear what the PFM reform priorities are.
- The table on p. 9 mentions "implement IPSAS" but there is no other reference to accrual accounting or IPSAS in the text, which is confusing, in particular for readers who might not be familiar with the context. In this respect, it might be more accurate to mention "implement selected IPSAS" in the table.
- Last but not least: the document mentions reforms in the areas of taxation and customs administration. In the frame of the recent government restructuring there has been the idea to merge taxation and customs administration (the recent Swiss funded IMF Tax mission strongly advised not to merge) but it seems that no decision has been taken yet. This uncertainty, as well as a potential merger is a high risk to reform implementation in both areas, which the ERP should take into account.
- In the Recommendations from the EU (Economic and Financial Dialogue between the EU and the Western Balkans, May 2017, p. 9), the timeline for the implementation of those should be clarified in the document. Furthermore, in terms of numbering, it goes from Rec.2 to Rec.5.

Energy and transport market reforms / Sectorial development

- We recognize a dynamic reform momentum in the energy and water and waste water sectors. There is a good combination of reform actions including improvements in policy and legal regulatory and institutional framework, good governance, enforcement against informality and infrastructure investment measures, which aim to achieve concrete results.

Business Environment

- On page 29, the report fails to provide a realistic analysis on why Albania is ranked lower in the last DB report compared to the previous one.

- Page 30, With regard to Reform 9: Reduce regulatory burden to businesses, a reference could be made to the support provided through the IFC, with Swiss funds to the improvement of the BE through easing of the administrative and regulatory burden.

Education& Skills
Reform actions are quite well developed and well-articulated – with the exception of general education, that are rather vague. Switzerland's work in these specific sectors is well aligned with the priority reform plans and is mentioned as a key development partner of Albania in VET and E.

EU Delegation to Albania
Reform 01: Establishment of a fiscal cadastre
Tax on agriculture – to be clarified that a priority should be put on resolving the issues with the property rights and registration of the agricultural land, and that taxation should be implemented on the already cleared property titles. Also, a public debate on the issue would be needed. (Please see also the OECD comments on this reform measure for possible reflection). Local government competences on managing the property tax, collecting as well as decentralisation principles need to be taken into consideration.

Reform 03: Diversification of energy sources (gasification)
The development of renewable energy sources (e.g. solar for which several recent measures have been taken) in addition to gasification, which is a long term measure, should be considered, aiming at reducing exposure to hydropower

Reform 04: Feasibility study for the construction and upgrade of the Adriatic-Ionian Corridor
A feasibility study is not a structural reform. As Construction of Fier Bypass (part of the corridor) has been introduced as an on-going activity within this measure in addition to the on-going feasibility study (page 62), it is suggested that information is provided for this activity as well under the section Timeline, Cost per activity, and Budgetary impact (page 66)

Reform 05: Rehabilitation and construction of the railway segment Tirana-TIA-Durrës
Still one comment on timeline, as this is planned for 2018 which does not seem realistic

Reform 06: Consolidation and defragmentation of agricultural land
The consolidation is needed indeed, however to be successful it should be noted that the problems with the property titles, cadastre, digitalisation, etc. need to be resolved. The ministry needs to establish the needed structures and to assure a budget (it should be noted that there was a delay in that regard in the previous years). Last but not least, in order to have a successful consolidation, a functioning of a land market is needed.

Reform 08: Water supply and waste water (p24):
- the first sentence mentions "The reform on this sector covers water supply service and urban waste water treatment and disposal". The word Urban should be removed in this sentence. The text in this chapter does not restrict the reform to Urban. Indeed the sector targets indicated in the text for year 2020 cover both urban and rural waste water coverage.
- On the reform itself: the reform goes in the right direction in line with the performance approach implemented on EU/KfW financed municipal projects. Improving performance in the sector will enhance sustainability, especially for water and sewerage utilities who overall are not able to cover operation costs.

- the timing of the reform (2018-20) coincides with the forecasted implementation of IPA2016 TA (GIZ as executing agency) starting in March 2018 for 3 years, which is good for the sustainability and impact of the project.
- The timing is also good in view of IPA2018 action (investment oriented) expected to start 2nd half 2019 earliest. Improved governance, regulations and institutions should translate into increased implementation and sustainability of investment.

Reform 11: Improve the institutional capacity of the research and innovation system
- Measure: Strengthening the capacities of National Agency for Scientific Research and Innovation
- Measure: Strengthening the capacities of the National Agency for Funding in Higher Education
- Budgetary impact; Expected budgetary impact will be: 1000 EUR (2018); 2500 EUR (2019); and 2700 EUR (2020)

Comments:
? Rolled over from ERP 2017-2019: the measure "Support for the development of innovation policies" is NOT included in the draft 2018-2020
? Improving institutional capacity of the Agency (ies) it does not seem a structural reform
? 6200 EUR in 3 years it does not seem to be a budget for impact

Focus should be on:
- Implementation of key measures of the National Strategy for Scientific Research, Technology and Innovation 2017-2022, adopted on 01.12.2017
- Increase expenditures and investments in Research and Development in the public sector and favour better links academia-businesses-government
- Higher participation in EU Horizon H2020 programme particularly in thematic areas as SMEs instrument

Reform 15: Improve the quality and coverage of VET while ensuring linkages with the labour market
- More concretely the law on the statute and obligations of the private employment agencies could be indicated (foreseen in the NESS)

Reform 16: Modernise public employment services, increase employment of women youth and vulnerable people
- These are very relevant and concrete

Reform 17: Strengthening social protection and social inclusion measures
- All the reforms identified for the employment, VET and social inclusion/protection are relevant; on reform 17 there could be a more precise identification based on the adopted strategy for the reform of social protection and the decentralisation of social services

Embassy of the Federal Republic of Germany

Just to quickly highlight the considerable synergies with the well aligned portfolio of German Development Cooperation (KfW and GIZ) and its engagement in the energy sector on waste and water, business and investment climate as well as VET. It might be worth to mention that the ERP is strong on the overall framework for economic activity (waste, water, electricity) – however, more direct support to the supply side of the labour market (such as investment support, entrepreneurship incentives, innovation incentives for start-ups are not mentioned. Here, it feels that the ERP document is quite distanced also from the support provided by multiple development partners (GIZ, KfW for Germany – but also EBRD, Switzerland, UNDP) in this area. The reasons behind this are not clear.

Sectorial Developments
It would be good to reflect on the state of play in the main economic sectors, agriculture, tourism, energy etc.
It remains unclear, how the topics discussed in this chapter have been selected. This ought to be explained further at least for the sake of understanding.
For example, clearly, water management is of utmost importance – but not necessarily for competitiveness. This may be better explained be the World Bank's Doing Business Indicators.
Please check again whether this is still relevant for this report? Possibly describe the results of the promotion activities in 2017?
In light of the delay in implementation/ conduct of the studies – it seems unrealistic to expect these economic impacts by 2020.

Business Environment
It would be helpful to mention the areas where Albania is lagging behind. Financing is always an issue – but it should be noted that in the WB's Doing Business actually ranked ok on "Getting Credit" – quite negatively, however, on "Dealing with Construction Permits", "Getting Electricity", "Registering Property", "Paying Taxes" and "Enforcing Contracts". This ought to be discussed in this section & considerable work has been done on these and related issued in the last couple of years.
How are these related to women entrepreneurs? Other activities have taken place, partly at the municipal level and with support of donors, in which women have played a considerable role. These could be taken up here.

Research, development and innovation and digital economy
Just to be clear, what can be done with 500 EUR?

Education and skills
Is it possible to give an indication, when these will be finished?

Employment
To keep up with the increased quantities of students and the improved image of VET – it will be necessary to also increase the quality of VET provided. This implies continues further training of teachers, purchasing of up-to-date equipment etc.

It would be good to mention the role of Vocational Training Centers/MFCs after the ongoing reforms as a tool to reach those population/age groups that have not benefitted from VET schools
The GIZ ProSEED programme starting 2017 has 16,5 Mio EUR in total and is focused on improving the employment situation of youths. It covers both the demand and supply situation of the labour market

Embassy of Sweden
The establishment of a fiscal cadaster is the first priority reform measure included in the ERP 2018-2020 and is recommendation no.5 from the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey ion 23 May 2917. The document mentions the "valuation-based property tax system" but hopefully the intention is to come to a market – value-based property taxing system. The document refers to the 4 pilot municipalities as the start of the fiscal cadastre (Tirana, Durrës, Korça and Fier) while the understanding is that the last decision from the GoA is to start frontally with all the 61 municipalities. If this is the case, it needs to be reflected in the document with the necessary explanations for the change in approach.

With regards to the consultations held with the Swedish Tax Agency /Sweden, regarding the new law on property tax, it needs to be mentioned that the input provided by Sweden focuses on the methodology of the evaluation of the property value but does not suggest any tax exemptions like for 4-5 star hotels or others. Swedish advice has been applied only on methodology aspects but not on tax policy elements.
The sentence on selection of the company from the GoA for the building of the IT system (page 11) needs to be clarified or deleted as the cooperation with Sweden includes the building of the IT system for the fiscal cadastre free of charge from the Swedish side. The GoA will need to provide resources for the maintenance of the system after a few years from its establishment and that would require financial allocations reflected also in the ERP.
The cost for the activity related to the fiscal cadaster in the PFM strategy was about 36 M EURO. With the fiscal cadaster's IT system coming as a development assistance from Sweden with no cost to Albania, the overall budget for this activity would require a drastic downward revision (page11). The revision is thus necessary not only due to the delay in time of the activity/measure, as suggested in the ERP document.
The document includes the allocation of a unique identification number to each property as something that will be established through the fiscal cadaster. In fact that would be required only for un-registered properties as the ones registered at Immovable Property registration Offices do already have the property identification number from the property registration offices.
In line with the above about the input from Sweden regarding the establishment of the fiscal cadaster, the risks analysis in page 12, needs to be revised with the risk (iii) "Design of the IT system being complex), being immaterial, due to the fact that the IT system will be provided from Sweden after being also tested as successful in Kosovo.

UN Women
Overall Recommendations
The ERP 2018 – 2020 makes some reference to the marked difference in women's and men's economic inclusion. For example, in descriptive sections, women's high inactivity rate, challenges in effective provision of support to women's entrepreneurship, and gender-responsive budgeting are mentioned. However, reform measures do not reflect or respond to these challenges.
The first overall recommendation is, therefore, to ensure that at least one reform measure in each section addresses concrete gender-responsive objectives and outcomes, and defines explicit gender-responsive action(s), with the aim to (i) unlock economic potential and enhance productivity, competitiveness, and growth; and (ii) ensure that economic reform measures benefit women and girls. Particular areas, such as public finance management, informality, business environment, land consolidation, access to credit, employment/VET, and equal opportunity allow for straightforward gender-responsive measures.
A precondition for gender-responsive planning is the accurate description of the status quo. Therefore, the second overall recommendation is to explicitly and consistently provide sex-disaggregated statistical data in all matters where individuals are concerned, in line with Albanian Gender Equality legislation[71], SDG provision on indicators[72], ECOSOC Statistical Commission (2013)[73], UN Beijing Platform for Action, Article 4,[74] and Council of Europe's Recommendations[75].

[71] Law No.9970, date 24.07.2008, on "Gender Equality in Society", Article 13, para d) and Article 14, para 3.
[72] [...] indicators should be disaggregated, where relevant, by income, sex, age, race, ethnicity, migratory status, disability and geographic location, or other characteristics, in accordance with the Fundamental Principles of Official Statistics (General Assembly resolution 68/261).
[73] Gender Statistics. Report of the Secretary General 44th Session, 26 February – 1 March 2013. E/CN.3/2013/10, page 12.

Without exception, recommendations made on the draft ERP draw on the contents of existing sector-specific policy and action plans; Albania's legal and policy framework on gender equality; and EU and international gender equality standards and obligations that guide Albania's reform agenda. Further, they are embedded within the 2030 Agenda and its enhanced attention to gender equality, and support achieving the set of localised SDG indicators for Albania.

Specific Comments on Structural Reform Priorities
Public Finance Management

- Add reference to Gender Responsive Budgeting (GRB) at central and municipal level as a concrete means to increase budgetary effectiveness. Define measures to enhance GRB in the MTBP and in PFM reform, and to establish a unified approach for undertaking standardised GRB in all municipalities.

Sectorial development

- Add gender-responsive measures in Reform 06, Consolidation and defragmentation of agricultural land which ensure women's land rights as one prerequisite for increasing productivity, performance, and competitiveness. Women's lack of registered co-/ownership is also an obstacle to qualify as "farmer" and hence access entitlements and services such as extension, credit and BDS. Adding a respective reform result: "Increase in agricultural productivity as a result of women's increased tenure, concomitant entitlements to accessing financial products and support services, and hence economic inclusion.
- Include reference to the gender dimension in manufacturing (page 22/104). In Albania, female employment in manufacturing is concentrated almost exclusively in a few low-tech & low-pay industries, particularly in the wearing apparel industry. (UNIDO, 2017). Reform measures in these industries must be undertaken in conjunction with effective enforcement of labour law/regulations. Close the significant gender wage and skill gap by measures that increase the share of women in medium-low and medium technology industries.

Business environment and reduction of the informal economy

- Women's entrepreneurship: Page 30/104 refers to the Women's Entrepreneurship Action Plan and mentions that "Policies aimed at women entrepreneurs remain a challenge in Albania". It remains unclear what the challenge is – the policy document as such, activities foreseen therein? Implementation? In the ERP, include specific measures that create equal opportunities and reduce opportunity cost for women entrepreneurs. Evaluate and revise the Women's Entrepreneurship Action Plan, address apparent bottlenecks, and take remedial action. Specify concrete measures for supporting women owned/managed SMEs: create effective access to support services and financial products, including in areas outside of urban centres, which are essential for increasing productivity and competitiveness.

Employment and labour market

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[74] UN Beijing Platform for Action, Article 4, para (a) Ensure that statistics related to individuals are collected, compiled, analysed, and presented by sex and age and reflect the problems, issues and questions related to women and men in society; para (b) Collect, compile, analyse, and present on a regular basis data disaggregated by age, sex socio-economic and other relevant indicators including number of dependents for utilization in policy and programme planning and implementation.

[75] Council of Europe's Recommendations of the Committee of Ministers to Member Stats on Gender Equality Standards and Mechanisms Recommendation CM/Rec(2007)17, adopted 21 November 2007.

- In line with GEL, NSES, Eurostat and SDGs, coherently provide all labour marker related data in a sex-disaggregated manner.
- Include plans/measures that are explicitly gender-responsive and aim at women's economic inclusion such as measures to reduce the high level of inactivity and informality among the female work force.

Social inclusion, poverty reduction and equal opportunities

- Page 53/104: The National Gender Mechanism and the Referral Mechanism are two distinct structures/mechanisms. The National Gender Machinery (NGM) is a public administration structure promoting and engaging in gender mainstreaming (as per Albanian legislation, CEDAW, EU policy). Albania's NGM is currently inert. The Referral Mechanism (RM) is a mechanism at municipal level to respond to and prevent cases of domestic violence in line with the Istanbul Convention. The RM is gradually established nation-wide. For the time being, the vast majority of domestic violence cases remain unreported.
- Reform 17 focuses on social protection and inclusion. In this section (and relevant other sections of the ERP), incorporate strategic measures that aim at establishing equal opportunities for women and girls as a precondition for economic inclusion of Albania's female population.[76]

Add reference to the disadvantaged situation of girls in rural areas, to be reflected in targeted measures.

UNDP

Employment and labour market

There is no updated information on actions taken to address gender gap in employment as it was highlighted earlier as showing limited progress.

Some updated 2017 statistics on the unemployment rate among women and young girls can be added here.

This a general recommendation for all the below indicators to be gender sensitive and include specific indicators related to women and girls

Social Protection and social inclusion measures

SIIG is not formally established. It operates on the basis of an Order of the Minister responsible for Social Protection setting out its specific objectives, composition and mandate. This order has not been formally adopted and issued yet. Following the restructuring of the Government, the draft order needs to consider all the new changes in the relevant structures

[76] Such measure need to address systemic disadvantage resulting from unequal entitlement and access. They include increasing labour standards, promoting formality, providing child/elder care services to enable women's inclusion in the labour market/economy, preventing violence against women, and enforcing anti (sexual) harassment policies. They are essential for achieving women's advancement in all spheres, social cohesion, alleviating poverty, and ensuring decent levels of old-age pension for women.