



**REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS**

**ECONOMIC REFORM PROGRAMME
2020-2022**

31 January 2020

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List of Abbreviations

AEO	Authorised Economic Operator
AKUM	National Agency for Water and Wastewater Infrastructure
ALL	Albanian Lek
AIDA	Albanian Investment Development Agency
AMTP	Land Ownership Act
ARTI	Agency for Research, Technology and Innovation
AShK	Albanian State Cadastre Agency
BoA	Bank of Albania
Bn	billion
CEFTA	Central European Free Trade Agreement
CoM	Council of Ministers of the Republic of Albania
DCM	Decree of the Council of Ministers
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EE	Energy Efficiency
EEA	European Economic Area
EIB	European Investment Bank
ERP	Economic Reform Programme
EPP	Employment Promotion Program
ESA	European System of Accounts
ETF	European Training Foundation
EU	European Union
EUD	Delegation of the European Union
EUR	Euro
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GoA	Government of Albania
Ha	Hectare
HPP	Hydro Power Plant
HSh	Albanian Railway
IMF	International Monetary Fund
INSTAT	Institute of Statistics of the Republic of Albania
IPA	Instrument for Pre-Accession Assistance
IT	Information Technology
KfW	Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau)
Km	Kilometre
Ktoe	Kilotonne of oil equivalent
LIS	Land Information System
MARD	Ministry of Agriculture and Rural Development
MEFA	Ministry for Europe and Foreign Affairs
MESY	Ministry of Education, Sport and Youth
MFE	Ministry of Finance and Economy
MHSP	Ministry of Health and Social Protection

MIE	Ministry of Infrastructure and Energy
Mn	million
MSME	Micro, Small and Medium-Sized Enterprises
MTE	Ministry of Tourism and Environment
MWh	Megawatt hours
NAIS	National Agency for Information Society
NCB	National Business Center
NESA	National Employment Skills Agency
OECD	Organisation for Economic Cooperation and Development
OST	Transmission System Operator
OShEE	Power Distribution Operator
PFM	Public Finance Management
PISA	Program for International Student Assessment
PIU	Project Implementation Unit
PMO	Prime Minister's Office
QTTB	Centre for the Transfer of Agricultural Technology
RDI	Research, Development and Innovation, and Digital Economy
RNM	Republic of North Macedonia
SAA	Stabilisation and Association Agreement
SEE	Southeast Europe
SILC	Survey on Income and Living Conditions
SME	Small and Medium-sized Enterprises
TAIEX	Technical Assistance and Information Exchange Instrument
TPP	Thermo Power Plant
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organisation
VAT	Value Added Tax
VET	Vocational Education and Training
WB	World Bank Group
WBIF	Western Balkans Investment Framework
WHO	World Health Organisation
WTO	World Trade Organisation
WTTC	World Travel and Tourism and Council

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The drafting and preparation of the Economic Reform Programme (ERP) 2020-2022 was made possible through the inter-institutional collaboration between the Ministry of Finance and Economy in its capacity of National Coordinator of the ERP, and the different line ministries and the Bank of Albania, who have been contributing with their reform measures.

The Economic Reform Programme 2020 - 2022 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 summaries the priority reforms measures of the Government of Albania for the short-term future for increasing domestic production, stimulating new investments and ensuring sustainable growth and increased competitiveness.

Fiscal policy in the medium term 2020-2022 will be oriented towards fiscal consolidation, in line with the fiscal rules set out in the Organic Budget Law and the recommendations by the European Commission in the Joint conclusions of the economic and financial dialogue between EU and Western Balkans in May 2019.

The consolidating fiscal policy aims to keep the downward trajectory of public debt as a ratio to GDP, started since 2016. Public debt is expected to continue falling from the peak of about 73% of GDP in 2015 at about 65.4% of GDP in 2020; 62.3% of GDP in 2021 and 62.0% in 2022. In terms of public debt net of liquid assets of government (cash deposit of government held in the central bank), it is expected to be reduced at 60.5% in 2022. To achieve this reduction of public debt, the baseline fiscal scenario targets a fiscal deficit at the level of 2.2% of GDP in 2020, a level of 2.0% of GDP in 2021, and aims a further reduction to 1.7% by 2022. Meanwhile, it is constantly targeting a positive primary balance in years 2020-2022, respectively 0.1% of GDP in 2020; 0.5% in 2021; and 0.8% in 2022. Even in the long run, fiscal policy will continue to be clearly oriented towards fiscal consolidation, aiming at reducing public debt by at least 1.5 percentage points of GDP per year on average, until it reaches its long-term target of 45% of GDP as defined in the fiscal rules of the Organic Budget Law.

At the same time, this fiscal framework accommodates budgetary policies which support economic growth. Central government public investments are estimated at an average of about 4.7% of GDP for each year (or about 5.5% of GDP, if the local government investments are considered). These levels are considered optimal for supporting high and sustained economic growth. The continuation of 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.

The ERP 2020-2022 encapsulates the structural reforms priorities that have been rolled over from the previous ERP, alongside new additions included in this cycle. The overarching objective of this approach is to ensure a continuous representation of those reforms that are still being implemented, thus ensuring sustainability in the priority reform agenda. In addition, and slightly more elaborated than last year's ERP, chapter 2 of this document provides information on the implementation of the policy guidance from the Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey of May 2019 concerning Albania.

The overall process was significantly affected by the earthquake of November 26 that hit specific regions of Albania. As a result of all government efforts being focused to provide relief in the aftermath of the disaster, a considerable delay was unavoidably attributed to the drafting and preparation of the ERP. Consequently, this was reflected as a domino effect on the remaining next steps, including inter alia the public consultation process, revision of the final draft and initiation of

the internal legal procedures for adoption of the Decision of the Council of Ministers for the ERP 2020-2022.

The Economic Reform Programme 2020-2022 was shared through a public consultation process with various interest groups, such as civil society, business organisations, partners for development and integration, etc. The feedback received from this consultation process has been, whenever possible and in collaboration with the responsible line institution, reflected or added in this document. Moreover, Annex II includes the full list of feedback received.

The Economic Reform Programme 2020-2022 was submitted to the Council of Ministers well within the deadline of 31 January 2020 and is expected to be adopted in the forthcoming Meeting of the Council of Ministers.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

1. Capitalise on the expected growth momentum to advance fiscal consolidation in 2019. Develop a medium-term consolidation plan to lower the debt ratio below the limit stipulated in the organic budget law. Develop a comprehensive medium-term revenue mobilisation strategy to effectively guide an increase in revenue, among others by addressing informality and tax evasion.

- In line with the recommendation “to advance fiscal consolidation in 2019”, despite Albania was hit by a strong earthquake during that year, not only the ever lowest targeted deficit at 1.9% of GDP was met, but considerable further consolidation took place in 2019, as the reduction of the VAT refund stock of arrears (and therefore total stock of government arrears) was further reduced by an additional 0.3% of GDP in the end of 2019, utilizing the fiscal savings accumulated during the year.
- In line with the recommendation “to develop a medium-term consolidation plan to lower the debt ratio below the limit stipulated in the organic budget law”, in addition to the usual decision of the Council of Ministers on the Medium-Term Macroeconomic and Fiscal Framework (MTMFF), which is in itself precisely a medium term plan with a clear and quantified objective to steadily lower the public debt ratio, in the most recent CoM’s decision of MTMFF 2021-2023 an additional commitment is laid down (formalized) stipulating that fiscal policy in the longer run (i.e. beyond the time horizon of MTMFF) will continue to be clearly oriented towards fiscal consolidation, aiming at reducing public debt by at least 1.5 percentage points of GDP per year on average, until it reaches its long-term target of 45% of GDP as defined in the fiscal rules of the Organic Budget Law.
- In line with the recommendation “to develop a comprehensive medium-term revenue mobilisation strategy to effectively guide an increase in revenue, among others by addressing informality and tax evasion”, the Albanian authorities are working closely with IMF to develop this strategy and it is expected that the document will be finalized in June of 2020.

2. Ensure a systematic and complete recording of fiscal liabilities stemming from Public-Private Partnerships and of arrears at all government levels in the regular fiscal reports and the Macro-Fiscal Framework. Improve planning and execution of public investment. Increase spending on education and research in percentage of GDP in line with the government’s policy objectives.

The recommendation will be addressed through PFM Strategy 2019-2022. In component 1.2: *Fiscal risk management* of the strategy, the objective will be to strengthen financial oversight and management of the fiscal risks. The fiscal risks analysis, in terms of the Fiscal Risks Statement was finalized in a single report, which was consequently included as a separate Chapter (Ch.8: “Fiscal Risks and Prevention Measures”) in the draft-Law for 2019’s Annual Budget, approved in October 2018. The assessment of the probability and impact of fiscal risks is carried out on the basis of in-depth analysis and forecasts within the Medium Term Budget. Respectively, two categories of risk are assessed:

- *"Explicit"*, or risks related to macroeconomic assumptions and developments, government revenues, spending and debt management, etc.
- *"Implicit"* or contingent liabilities, PPPs, those of local self-government, state-owned public enterprises, other risks such as court decisions, natural disasters and the financial sector or long-term risks.

The MoFE will continue to address the gaps and deepen the analysis so that oversight of fiscal risks are properly managed and contained. Specific issues as referred in this recommendation will be

addressed through measures ‘Closely monitoring the central government arrears’ and ‘Upgrade fiscal risks statement concerning PPP contracts’.

Another component will be *2.3 Public Investment Planning and Oversight*, to strengthen processes and institutional capacity for initiating, appraising, prioritizing, and approving all public investment projects. In this order specific measures are included: to develop and maintain a single project pipeline for all projects, regardless of source of financing; to increase the quality of larger Public Investment proposals submitted for approval; to improve monitoring of public investments including PPP projects and concessions. To prepare and publish a comprehensive report on public investments (including PPP).

3. Explore potential measures for developing the market for currency derivatives that would enable economic agents to hedge themselves against exchange rate risk. Ensure the fully operational implementation of the remaining measures of the non-performing loan resolution strategy, also with a view to ensuring improved access to finance for corporates. Implement measures in the realm of the government in line with the Memorandum of Cooperation to increase the use of the national currency.

Improve access to finance from payment perspective.

Aiming to increase financial inclusion in Albania, which appears to be at a very low level compared with other countries of the regions and the EU once (40% of population above 15 year old)¹, Bank of Albania, has conducted several studies and analyses², which concluded in Albania national retail payments strategy (2018-2023).

The vision of the strategy is to “create a modern and inclusive retail payments market in Albania, supported by safe and efficient payment infrastructures, and a wide range of payment instruments and services that meet the needs of financially capable payment service users throughout the country. By supporting the objective of broader financial inclusion, main goal is that the improvements in the retail payments market will give citizens more choices across more places for conducting their day-to-day transactions in a convenient and cost-effective manner.”

The overarching objective of the National Retail Payments Strategy is to promote the intensive use of modern retail payment instruments across the whole country, with the goal of achieving 10 cashless payments per capita by end-2022. Broadening access to transaction accounts is a necessary condition to achieve the overarching objective. In this regard, Albania aims at achieving an adult account ownership ratio of 70% by 2022.

A comprehensive mid-term strategy has been designed by Bank of Albania, with the assistance of the WB and approved by all stakeholder members of the National Payments Systems Committee in the IVth meeting of NPSC in June 2018. It will be implemented through 2019-2013 and will seek the active involvement of all stakeholders. This strategy entails legal, regulatory, and infrastructural changes that target goals like: i) Stronger stakeholder commitment; ii) Consolidation of a conducive regulatory environment for retail payments; iii) Improvements to payment and other supporting infrastructures; iv) Customer-centric and affordable payment services based on accounts; v) Expansion of access points and networks for payments; vi) Effective financial literacy efforts; vii) Economies of scale in the NPS by leveraging large-volume payment use cases; viii) Effective BoA oversight of the retail payments market’

The two most important steps in the implementation of the Strategy are the following:

- 1) Improvements of legal and regulatory framework:
 - a) The approval of the draft Law” On payment services” which transposes the revised EU

¹ Index

² https://www.bankofalbania.org/rc/doc/NRPS_update_3July2018_12078.docx

https://www.bankofalbania.org/rc/doc/raporti_i_Perfshirjes_finaciare_12072.docx

https://www.bankofalbania.org/rc/doc/WB_RetailPmt_Albania_WEB_Final_12074.pdf

https://www.bankofalbania.org/rc/doc/remittances_Report_12169.pdf

Directive 2015/2366 by the end of 2019.

The adoption and implementation of this draft-law is expected to have a direct impact in promoting competition and innovation in the field of retail payments, thus promoting their efficiency and reducing the costs of their use. This draft-law aims to balance the spaces for payment services providing between banks and non-bank financial institutions, by allowing the later to open payment accounts and issue electronic payment instruments. The draft-law is expected to increase the transparency of the services provided by the market and establish a consolidated framework for consumer protection. The Bank of Albania has finalised the drafting of this law and the consultation process with market stakeholders. Actually the draft law is in MoFE for final consultation with relevant public institutions

- b) Drafting a Law that will transpose the European Union directive "On the payment account" within 2021.
- 2) Infrastructure and technological improvements like:
 - a. Possibility of implementing a national card-processing platform (SWITCH) / 'instant payment'.
 - b. Implementation of interbank direct debit schemes.
 - c. Establishing a system for the settlement euro transfers for domestic payments.
 - d. Operationalizing the category of "indirect participation" in the AECH.

4. With a view to improving the investment climate, continue strengthening the justice system by implementing the justice reform and improve the provision of technical support services for micro, small and medium-sized enterprises, including through the development of a support network to help them upscale, invest, innovate, digitalise and export. To increase investments in tourism in particular, adopt the tourism strategy and start its implementation, focusing on sustainability through natural resource management. Provide for vocational education and training in line with the investment needs of SMEs and the tourism sector.

Tourism

In relation to the implementation of the policy guidance in the action plan of the National Strategy for Sustainable Tourism Development 2019-2023 various activities are foreseen in accordance with the strategic objectives and sub-objectives. Specifically for the investment part: (i) Creating a business-friendly regulatory framework to accelerate sector development; (ii) Cooperation on the drafting of detailed development and action plans for tourism priority areas in implementation of the National Sectorial Plan for Tourism; (iii) Sub-zoning of priority areas for tourism development and defining the economic model of development for each sub-area.

Regarding vocational education and training there are planned activities such as: (i) Identification of needs, promotion and support of trainings for the employees at the services and managerial level; (ii) Developing an annual training plan for human resources development based on identified market needs; (iii) Accreditation of institutions providing vocational education and training in the field of tourism; (iv) Collaboration with businesses for hiring qualified people in the field of tourism. These activities cover the period in question (until June 2020), but extend beyond the entire timeframe of the strategy.

Justice

The justice system in Albania has recently undergone a series of in-depth reforms in order to meet European standards in this system. Through the implementation of Law no 76/2016 "On some addenda and amendments to the Law no 8417/1998 "Constitution of the Republic of Albania", as amended, Albania initiated the implementation of justice reform. The constitutional changes and the package of organic laws adopted in the framework of justice reform contain clearly defined provisions that guarantee independence, impartiality, professionalism, the integrity of the judicial system, and

improve accountability and monitoring mechanisms of its functioning. Good progress has been made through continued implementation of the justice reform.

Reforms crucial to improving the business environment progressed but require further efforts. The comprehensive judicial reform advanced but needs to be fully implemented. The new bankruptcy law entered into force and will strengthen the insolvency regime. The level of unemployment and informal employment remains high. In line with the Economic Reform Programme (ERP) recommendations and in order to support long-term growth, in the coming year Albania should pay particular attention to: i) sustaining fiscal consolidation and strengthening the budget management framework; ii) tackling the high level of non-performing loans; iii) improving the business environment by enforcing the new bankruptcy law; and (iv) reduce the informal economy, including undeclared work.

Bankruptcy Law

- Status of legal harmonization

Law No. 110, dated 27.10.2016, On Bankruptcy is adopted by the parliament of Albania and entered into force on 22-nd of May 2017.

Some of the main innovations of the law are related to entities subject to bankruptcy proceedings, expanding the circle of monitoring entities, the order of priorities, penalties, cross-border insolvency. As regards the legal rules for obtaining assets from banks, the law aims to resolve an ongoing problem in the banking system in Albania, the problem of non-performing loans.

Obligations of the business which goes into bankruptcy and that have loans to banks of different types, are secured loans, which will be the first in the order of priorities in the settlement. The main mechanism that ensures that all creditors are treated equal is the order of priorities. The existing Bankruptcy Law provides a hierarchy of creditors like: estate creditors, insolvency creditors and subordinate creditors. It also recognizes the special position occupied by secured creditors. Article 605 of the Civil Code contains a scheme that prioritizes claims of secured and unsecured creditors based on policy considerations adopted by the Albanian Parliament. Article 150 §(3) of the Bankruptcy Law incorporates the scheme provided in Article 605 thereby bringing into insolvency law the policy considerations embodied in it. The Bankruptcy Law provides a new hierarchy for the creditors' claims and not referring anymore to the article 605 of the Civil Code.

This new hierarchy includes: a) secured claims, b) preferred creditors' claims (you must read the definition of the preferred creditor at article 3), c) unsecured creditors' claims, ç) ending creditors' claims (you must read the definition of the preferred creditor at article 3), d) partners/owners claims. The main rule is that every creditor of the same class is treated economically equal into his category of claims.

In September of 2018 were approved:

- Decision of Council of Minister no. 542, date 19.09.2018 "*For organization and functioning of the National Bankruptcy Agency*".
- Decision of Council of Minister no. 543, dated 19.09.2018, "*Code of Ethics for Bankruptcy Administrators*".
- *The Sub-legal acts that are expected to be adopted in December 2019 are as following:*
- Definition of Rules for Remuneration of Bankruptcy Administrator
- On the adoption of national standards for the administration of insolvency proceedings.

The State Bailiff Service

- The State Bailiff Service has fully recognized and implemented Joint Guidance no. 32, dated 30.08.2018 "On some amendments to the Joint Guidance no. 385/7, dated 28.06.2017 "On the adoption of fees for the services provided by the State Bailiff Service", and Joint Guidance no. 33, dated 30.08.2018 "On some additions and changes to the Joint Guidance no. 1276/6, dated 27.07.2017 "On the determination of the minimum and maximum level of value of success fee for the enforcement actions provided by the State Bailiff Service" " of the Minister of Justice and the Minister of Finance.

- For the first six months of 2019, a total of 40 674³ cases have been registered for execution (excluding "childcare" and "food pensions" in total 6858), executed totally 5092 (five hundred and ninety-two) cases, and, expressed as a percentage, execution of executive titles is 100%. (calculated, referring to the amount of executive titles scheduled to be executed for the 6-month period, stated in the State Bailiff Service program policy), and 6922 cases were granted legal remedies.
- Exercising periodic audits at the bailiff offices to ascertain and monitor the process of executing executive titles is part of the ongoing annual plan by the General Directorate of State Bailiff Service. The controls are aimed at ensuring the achievement of the service objective for the execution of executive titles, the lawfulness of enforcement activity, and in particular the on-the-spot identification of any complaints by citizens regarding enforcement activity.
- For the period January-June 2019, periodic and complaint-based controls were recommended and disciplinary measures were taken:
 - "dismissal from office" for 2 Heads of Office, respectively, against the Chairman of the Fier Bailiff Office and the Chairman of the Tirana Bailiff's Office;
 - 6 (six) administrative measures "written warning" and "warning with dismissal warning" against bailiffs found for violations found in the procedural activity of enforcement of executive titles;
 - 1 (one) administrative action "dismissal" against a service administration employee and 1 (one) "written warning" administrative measure against an administration employee.
 - Also, during this period it is proposed to initiate disciplinary proceedings for 10 (ten) bailiffs found in violation. Proposal measures are in the process of being considered by the Bailiff's Council.

During the period January - June 2019, the Directorate General of State Bailiff Service, as the central body of this service, has handled correctly and within the legal deadlines: 193 complaints filed and registered in the protocol of the institution. 133 of these complaints were forwarded through Joint-government platform shqiperiaqeduam.al. Also, in the context of further strengthening the transparency program on bailiff service and increasing its efficiency towards citizens, persons which submitted the complaints were in all cases clarified on the procedural actions pursued and for the procedures of solving of their problems, and were instructed in specific cases.

Improve the operational environment for SMEs

The e-Albania portal was set up on the principle of the Open Government Partnership and is driven by services to the citizen. It has significantly increased the number of electronic services, with more than 1,600 services out of which almost 600 electronic services. There are 3,585,299 electronic service uses for the first six months of 2019. The number of users registered on the portal has increased. Currently, the number of registered users is more than 899,000 or 18 times higher than 2013.

More than 1.3 million documents with electronic signature were generated in the first six months of 2019, avoiding corruption and delays. Only civil status certificates have saved citizens over 1 million euro as they are offered free of charge in their electronic version. Providing documents with electronic seal has saved citizens and businesses about 100 years of waiting in queues in 18 months.

Businesses are a priority in the services provided on the e-Albania Portal, which provides a total of 298 e-services to business such as e-tax, e-permits, e-inspections, e-notary, e-cadastre, e-payment; and around 60% of e-services' application forms are pre-filled, facilitating the application procedures thanks to the Governmental Interoperability Platform. 304,572 e-sealed business documents were downloaded in 2018, and 97,634 e-sealed business documents were downloaded in the first half of 2019, saving businesses 10 years of waiting time in queues.

³ For more information regarding statistics on 2018, please find attached annex 1

Draft-law on investments

The Draft Law “On Investments” aims to update existing investment legislation with the best international standards; establish a new, unified and competitive legal scheme to attract new domestic and foreign investment, as well as to guarantee compliance with domestic legislation and international agreements.

The adoption of the Draft Law “On Investments” was born as a necessity, as the legislation in force in the Republic of Albania gave additional protection to foreign, but not domestic, investments, while a new legal body was created for strategic investments. The novelty of the draft law is the adoption of a quick mechanism within the executive power for resolving disputes arising from an investor with state institutions, thus trying to avoid additional court or other costs.

Draft-law on innovative start-ups

Entrepreneurship and start-up policies can encourage the emergence and growth of innovative start-up companies by providing an entrepreneurship-friendly environment (e.g. through easing the financial burdens for start-ups). The current Albanian legislation has no specific law on start-ups.

Nevertheless, the Government of Albania (GoA), namely the Ministry of Finance and Economy and the Minister of State for the Protection of Entrepreneurship, show strong commitment to create a favourable legislative framework for start-ups. The purpose of “EU for Innovation” in this assignment is to gain a holistic understanding of the legislative environment for start-ups in Albania and advise the Government of Albania on possible ways to create a supportive policy framework for start-ups.

In the first phase of the consultancy, a team of experts will evaluate the existing legislative situation and identify opportunities and needs to improve the legislative framework affecting start-ups in Albania. The second phase of the consultancy will entail steps like advising the partner ministries on the content, focus and specifications of the proposed legal provisions.

5. Ensure effective liberalisation of the energy market, with complete unbundling and a functioning power exchange. Finalise implementation of the law on renewable energy sources to ensure their integration into the market. Adopt the secondary legislation for the laws on energy efficiency and energy performance of buildings, including the setting up of the Energy Efficiency Fund.

Albania is very committed on the one hand to increase the production capacity through diversification of the energy sources, and on the other hand, to ensure the continuous supply of energy in the country in terms of security of supply and quality. The new legal and regulatory framework aims to address a wide range of energy sector issues, including institutional reforms, incentives, increasing energy efficiency and renewable energy production capacity in Albania, establishing a new tariff system, developing and establishing an organized electricity market, and integrating the Albanian electricity market with the broader regional electricity markets and finally the EU internal electricity market. The aim is to create a market that generates, transmits and consumes electricity efficiently, as well as a market that makes the highest profits, organized according to the EU model, which is guided by the principles of being transparent, non-discriminatory and sustainable over the long term, based on competitive pricing. In accordance with the provisions of the amendments made to the law on power sector, the adoption of the DCM no. 322, dated 15.5.2019 “*The establishment and the legal form and the capital structure of the ownership of the Market Operator*” and the DCM no. 609, dated 11.9.2019 “*on determining the criteria and procedures for the selection of participants in the market operator's capital*”, has completed the necessary legal background for the setting up of the Market Operator in Albania. Also, starting from 1st January 2020, OSHEE S.A will not be able to provide electricity as a Last Resort Supplier, to the customers connected in 35 kV grid, as the effective unbundling of OSHEE will happen according to this deadline, demonstrate our commitment in the context of the liberalization of the energy market in Albania, despite the problems and difficulties of this sector.

MIE is working on creating a complete legal and institutional framework to finalise implementation of the law on renewable energy sources to ensure their integration into the market. It is under preparation the regulation on “Methodology for calculating the electricity price for self-producers that benefit from the Net Metering Scheme”, based on the order of Minister of Infrastructure and Energy No. 3, dated 20.06.2019 "On the approval of the procedure for the authorization of connection to the distribution grid of the small renewable self-producers by the sun", is under preparation (foreseen to be approved within 2020).

MIE with the assistance of the European Bank for Reconstruction and Development (EBRD) is reviewing the existing Law “On Energy Efficiency”, aiming its full approximation with the provisions of the Directive 2012/27/EU. The amendments will include the elements currently absent from the Law No 124/2015 of 12.11.2015, and will exclude the Articles about the Energy Efficiency Fund. The revised Law on Energy Efficiency is expected to be adopted by the second quarter of 2020. The amendments will include the inclusion of elements currently absent from the Law No 124/2015 of 12.11.2015, including Article 4 “Building renovation”, Article 7 “Energy efficiency obligation schemes”, Article 14 “Promotion of efficiency in heating and cooling”, Article 15 “Energy transformation, transmission and distribution” and Article 24 “Review and monitoring of implementation”.

In accordance with Law No. 124/2015 “On Energy Efficiency” and Law No. 116/2016 on “Energy performance of Buildings”, there are in place regulations that defines the procedure, categories, conditions and requirements of the qualification and professional experience of the energy audits and energy managers, in order to create favourable conditions (economic, technical and legal) for the implementation of processes that will contribute in the decrease of energy consumption in the country.

The Ministry of Infrastructure and Energy with the assistance of the European Bank for Reconstruction and Development (EBRD) is on process of revising of the existing Law No 124 of 12.11.2015 “On energy efficiency”, aiming to fully transpose the provisions of the Directive 2012/27/EU. The draft documents for Energy Efficiency Fund are developed but recently this process is under consultation and will be decided if the Energy Efficiency Fund will be established or it is necessary to create other financial mechanisms for investments in the field of energy efficiency. Currently, is pre estimated that there are not favourable conditions to establish Energy Efficiency Fund for Albania due to the bottlenecks that were faced since this process has initiated (2017), for certain fundamental reasons such as: The lack of financial potential; The unsuccessful experience of regional countries related to its functioning; The lack of capacity mechanisms as a result of the gap on legislation and implementing structure; There are in place other mechanisms such as through donors, that are estimated as more possible. This issue is under consultation, still not a decision in place.

Based on the Law No 116/2016 of 10.11.2016 “On the energy performance in buildings”, with the Order of the Minister of Infrastructure and Energy No 92 of 13.10.2017, a technical working group was set up to prepare the implementing legislation for the energy performance in buildings. The working group, assisted by the EBRD are preparing the implementing acts:

- Draft DCM “On Calculation Methodology for energy performance in building” is being prepared and it foreseen to be approved within 2020
- Draft DCM “On minimal requirements of the energy performance on buildings and the building elements” (MEPS regulation), is being prepared and it foreseen to be approved within 2020.
- Draft DCM “On the Minimum energy performance standard”. The first draft of the MEPS regulation is prepared;
- Draft Regulation “On Energy Performance Certification” (EPC) is under preparation (foreseen to be approved within 2020).

Based on the Decision of the Council of Ministers No 349 of 12.06.2018 and the objectives of the National Renewable Action Plan 2019 – 2020, the Ministry of Infrastructure and Energy has opened

another bidding procedure to select the developer of the project for the construction of a photovoltaic plant with an installed capacity of 70 MW, as part of the Support Measures, in the Remas - Karavasta (close to Lushnje area) and Libofsha (close to Fier area) the construction of additional capacity of 70 MW, which will not be part of the Support Measures. Bid Submission Deadline is until 16 March 2020, 12 noon (Central European Time). Bids must be valid for a period of 180 days from the deadline for submission of bids. Additional information on the Bidding Process Documents can be found on the Contracting Authority's website: <http://infrastruktura.gov.al>.

6. Improve the targeting of active labour market policies and implement the prepared Vocational Education and Training reform package. Under the steer and with financial support from central government, establish capacities at the level of all local government units for assessing social care needs and preparing social care plans. Increase investment in early childhood education and care, especially for increasing enrolment of children from vulnerable families.

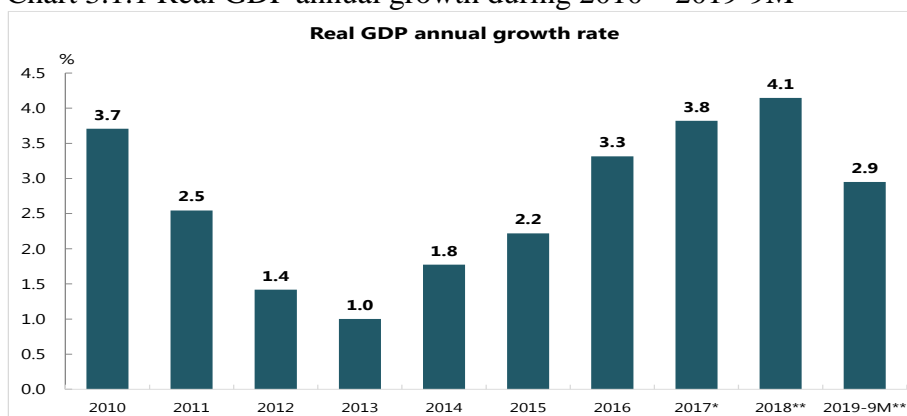
Based on the initiative “Every Roma children in kindergarten”, regulated by the MESY Minister Guideline no. 21, dated 08.08.2014 “On increasing the attendance of preschool education by Roma children”, priority is given to Roma children especially in cases when kindergarten does not have the capacity to fulfil the needs of the nearby community. Comparing to scholar year 2013-2014 when enrolled 619 Roma children in preschool education, in 2018-2019 are enrolled 889. In scholar year 2016-2017 are enrolled 1567 Egyptian children comparing to 1725 enrolled in 2018-2019. Enrolment for Roma and Egyptian children aged 3-6 in kindergarten increased from 2,570 in 2018 to 2,679 in 2019 in public and private education. Preschool investments are part of basic education investments. Meanwhile, every year a special fund for didactic resources is planned for early childhood education exclusively.

3. MACROECONOMIC FRAMEWORK

3.1. Recent economic developments

Economic growth in Albania decelerated in the first three quarters of 2019, reflecting primarily developments in the energy sector, the TAP project entering into its final stage and the closure of gambling activities. However, the increase consumption fuelled by low cost of financing and positive developments in the labour market, as well as higher revenues related to the tourism activity continue to support economic growth. Spare capacities are assessed to be shrinking, but the economy is still operating under potential.

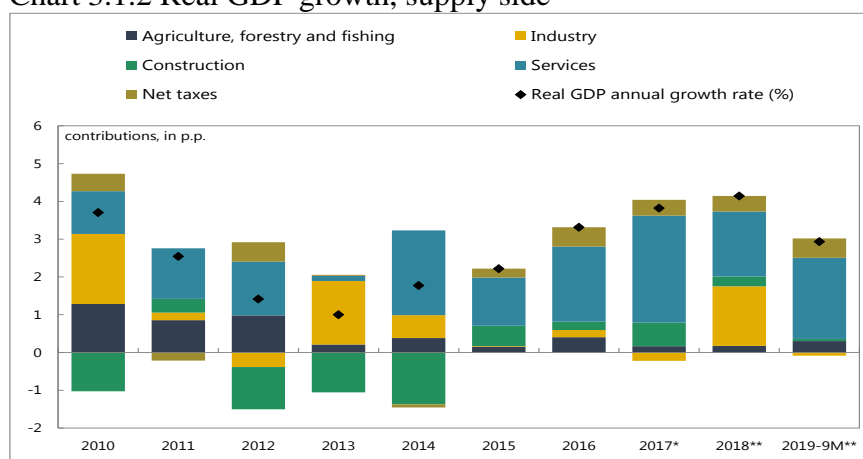
Chart 3.1.1 Real GDP annual growth during 2010 – 2019-9M



Source: INSTAT. *semi – final data. **preliminary data.

The lower pace of economic growth, around 2.9% year-on-year in the first three quarters of 2019, reflects mainly the lower level of electricity production compared to the previous year and the shrinkage of activity in the “Arts, entertainment and recreation services, other services” branch. The later reflects the closure of gambling and betting activities in the country, which started in the beginning of 2019. Activity in the construction sector continued decelerating, and as a result contributing to a lower extent to GDP growth (0.1 from 0.3 p.p. in 2018). Weakened developments in the construction sector reflected primarily the completion of major works related to the TAP project.

Chart 3.1.2 Real GDP growth, supply side



Source: INSTAT and Bank of Albania. *semi – final data. **preliminary data

Economic growth in the first three quarters of 2019 was supported by the services sector, which accounts for the largest contribution, around 2.1 p.p.. The highest contribution came from trade (0.5 p.p.) and real estate activities (0.4 p.p.). The industry sector reflected a slightly higher contribution from mining and quarrying, and a positive effect from manufacturing. The agriculture sector also

contributed positively to economic growth, by 0.3 p.p., from 0.2 p.p. a year before. Net taxes had also a positive impact on economic growth, by around 0.5 p.p. from 0.4 percentage points the previous year.

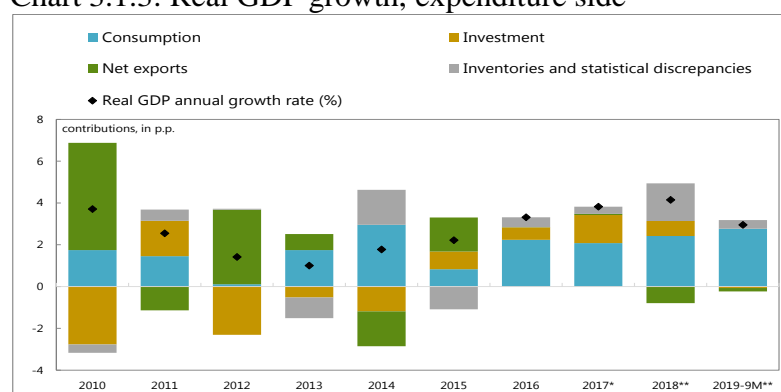
Table 3.1.1: Sectorial contributions to real GDP growth rate (p.p.)

Sectors' contributions to GDP (p.p.)	2016	2017*	2018**	2018**				2019**		
				Q1	Q2	Q3	Q4	Q1	Q2	Q3
Agriculture, forestry and fishing	0.4	0.2	0.2	0.2	0.2	0.2	0.1	0.3	0.4	0.1
Industry, energy and water	0.2	-0.2	1.6	1.9	1.9	1.4	1.2	-0.8	-0.2	0.7
Construction	0.2	0.6	0.3	0.2	-0.1	0.6	0.3	0.5	-0.1	-0.1
Trade, hotels, restaurants and transport	0.6	0.6	0.9	0.6	1	1.3	0.6	0.8	0.8	1.3
Information and communication	0.2	0.1	-0.1	-0.1	-0.2	-0.1	0.2	0.3	0.3	0
Financial and insurance services	0.2	0.3	0.1	0	0.1	0.1	0.2	0.2	0.3	0.3
Real estate services	0.1	0.1	0.1	0	0.1	0.1	0	0.6	0.4	0.3
Professional and administrative services	0.3	0.7	0.5	0.7	0.7	0.5	0.2	0.4	0.2	0.6
Public administration, education, health	0.3	0.9	0.2	0.4	0.1	0.1	0.1	0.3	0.4	0.7
Other services	0.3	0.1	0.1	0.2	0.2	0.1	-0.1	-0.5	-0.5	-0.6
Net taxes	0.5	0.4	0.4	0.3	0.3	0.5	0.5	0.5	0.5	0.6
Real GDP (annual growth in %)	3.3	3.8	4.1	4.3	4.3	4.7	3.3	2.6	2.5	3.8

Source: INSTAT and Bank of Albania. *semi – final data. **preliminary data.

Domestic demand remains the main driver of economic growth over the first three quarters of 2019, with the highest contribution of 2.5 p.p coming from private consumption. Private consumption continues to be supported by higher labour income, consumer confidence above the historical average and accommodative financing conditions. As regards, government consumption, it also contributed positively to economic growth, but its impact was lower, around 0.3 p.p.. Investment dynamics remained weak, contributing on the downside to GDP growth, even though at a small extent, around -0.1 p.p.. On the one hand, this reflected the lower level of private investments starting from 2019 Q2, due to the fall of both construction activity related mainly to TAP project, as well as the import of machinery and equipment. On the other hand, the estimated public component of investment had an almost zero contribution to GDP growth in the first three quarters of 2019. The positive performance of exports of services was offset to a certain extent by lower exports of electricity. The impact of exports on economic growth resulted at around 1.7 p.p.. Net exports contribution remained nonetheless negative, around -0.2 p.p., as both imports of goods and services grew.

Chart 3.1.3: Real GDP growth, expenditure side

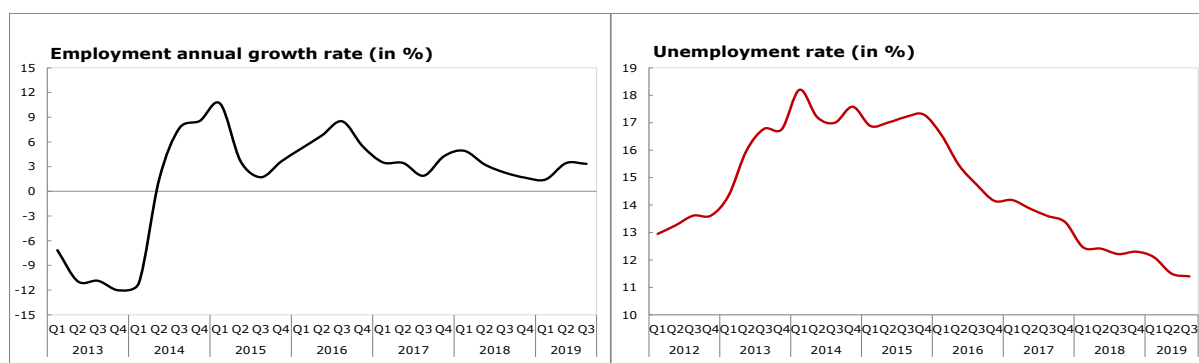


Source: INSTAT and Bank of Albania.

*semi – final data; **preliminary data

Labour market indicators continue to point to positive developments in the first three quarters of 2019. Unemployment rate fell to 11.4% in the third quarter of 2019, its lowest historical level. This trend was driven to a large extent from the employment growth. According to the Labour Force Survey data, employment increased on average by 2.7% year-on-year in the first three quarters of 2019. The largest contribution to the employment increase came from the services sector.

Chart 3.1.4: Labour market indicators

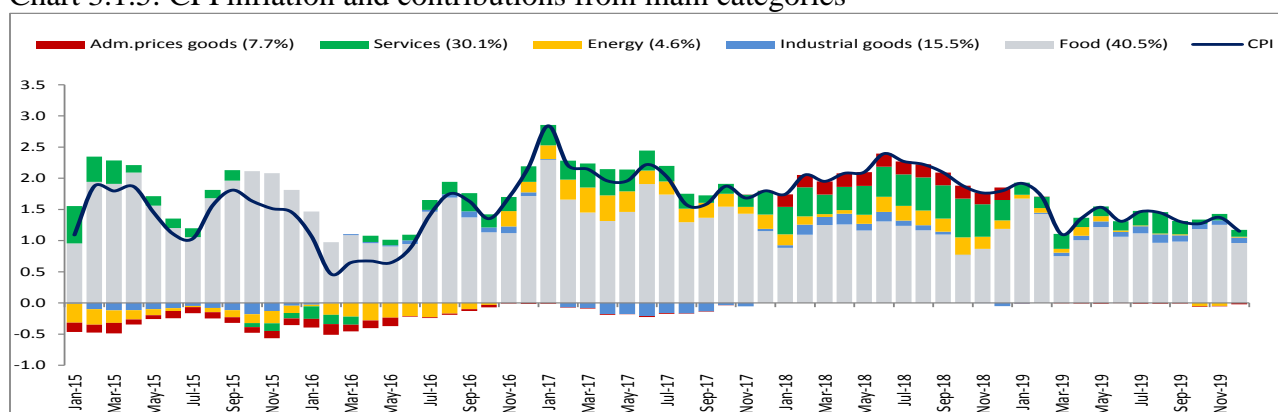


Source: INSTAT

Average annual wage growth in the economy⁴ resulted around 4.3% in the first three quarters of 2019. Adjusted for inflation, average wage grew by 2.9%. The rise in the minimum wage and the increase in wages for certain segments of public sector employees impacted wage growth on the positive side, in particular during the first half of 2019. Unit labour costs⁵ grew by 1.5% year-on-year in the third quarter of 2019 from 1.2% in the second quarter. This was mainly due to the slightly upward trend in the average real wage indicator for the activities covered by short-term statistics. Labour productivity remains low, almost unchanged from the previous year.

Annual inflation averaged to 1.4% in 2019, down from 2% during the previous year. It fell from 1.6% in the first quarter to 1.4% in the second and third one, and to 1.3% in the last quarter. Despite the declining of headline inflation, the core inflation has increased over the quarters of 2019, from 0.4% in the first quarter to 0.8% in the last quarter of 2019. Nevertheless, core inflation remains below the historical trend and lower than in 2018. Inflation expectations stand below the last year's levels as well as below the inflation target. These low inflation rates reflect weak pressures generated from the negative output gap and the slow growth of costs in the economy. Also, pressures from imported inflation remain still weak, driven both by moderate increases in foreign prices and the effects of exchange rate appreciation. However, the downward impact of the exchange rate appreciation was smoother, reflecting the relative stabilization of the exchange rate in 2019. At the same time inflation was impacted by the lower contributions from rent and regulated prices categories, mainly due to the high base effect of last year.

Chart 3.1.5: CPI inflation and contributions from main categories



Source: INSTAT and Bank of Albania

⁴ On 11 June 2018, INSTAT published for the first time quarterly data on the average monthly wage per employee in the economy. The published data series starts since 2014 Q1. This indicator refers to the gross average monthly wage and its source is the wage list from the General Directorate of Taxation.

⁵ The proxy indicators of labour productivity, labour costs per unit of output and average wage from short-term statistics are calculated by the Bank of Albania using total series from "Short-term Statistics" (INSTAT, latest publication 2019 Q3).

The largest downward contribution to the headline inflation annual rate for the year 2019 came from services and regulated price goods inflation (-0.3 and -0.2 p.p. respectively). Additionally, some sub-components of services have been affected by the exchange rate appreciation, increased competition and indirect effect from decreasing oil prices. Further, downward contribution to headline inflation comes from energy prices (-0.1 p.p.)⁶.

Looking into the future, the BoA assesses that strengthening labour cost pressures, high levels of capacity utilization and stabilization of exchange rate will pass-through to inflation.

The current account deficit stands at 4.6% of nominal GDP in the first 9 months of 2019. It expanded by 38.9% annually, mostly due to the expansion of electricity trade deficit. The current account deficit was financed mainly from non-debt creating inflows in the form of direct investment. Net foreign direct investments increased by 0.1% on annual aggregate terms in the first 9 months of 2019.

The country's gross external debt, has declined to around 61.6% of nominal GDP in the first 9 months of 2019. From a sustainability perspective, the long-term repayment capacity indicators for the external debt have recently improved.

At the end of December 2019, gross international reserves stand at EURO 3,360 million, or about 24.5% of GDP. Reserve adequacy indicators are above critical levels, enough to cover 6.6 months of imports of goods and services and 155% of short-term external debt.

The local currency (Lek) appreciation peaked by the end of 2018, and started a steadily declining path during 2019. This dynamic was mostly affected by less favorable developments in the external sector compared to previous years. In nominal effective terms, Lek appreciated y-o-y by 1.9% in December, down from 10.2% in December last year. Vis-à-vis the Euro, the Lek displayed the same trend, appreciating y-o-y by 1.0% in December, down from 7.4% in end-2018.. The strong appreciation pressures experienced over 2018 appear to have subsided and movements in the foreign exchange market seem to have normalized. The BoA intervention last year proved to be timely and effective. During 2019, the foreign exchange market has displayed low volatility and the slight Lek appreciation toward Euro has been in line with its seasonal pattern.

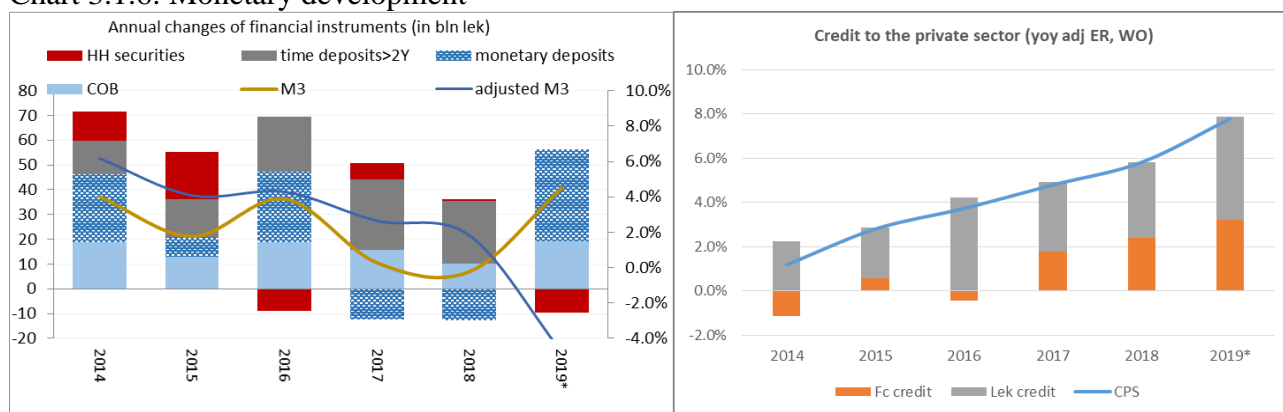
Credit to the private sector has continued to recover through 2019 as expected. On average, in the year to November it grew by 6.9%⁷ in annual terms, 1.7 p.p. higher than in 2018. Unlike 2018, the main contributor to the credit growth this year was lending to businesses (mostly working capital), which accounted for 4.7 p.p. on average. Credit to households has remained broadly stable, supported mostly by lending for house purchasing. Credit growth was fueled by lending in Lek, which grew by 8.6% annually in 2019. At the end of November, credit in domestic currency represents 48.2% of the total credit to the private sector, compared to 42.6% three years ago.

The faster credit growth has reflected both the pick-up in credit demand and the improved credit supply conditions. The latter benefited from lower risk premia and increased competition in the market due to the consolidation process of the banking sector. Non-performing loan ratios continued to decline, reaching 9.8% in November, registering a 25% decrease from one year ago.

⁶ The subcomponents of Energy are: fuels and lubricants for personal transport equipment (fuel, gas, firewood).

⁷ In this section credit to private sector includes only credit to residents. Credit data has been adjusted for the effect of the write-offs and the exchange rate.

Chart 3.1.6: Monetary development



Source: Bank of Albania

The stock of resident deposits grew by an average annual rate of 4.4% through November. Developments on the liabilities side of banks' balance sheet were affected by the continuous shift of deposits toward the tails of the maturity distribution – demand deposits (46.5% of the total) and deposits with maturities over two years (13.4% of the total). The low interest rate environment supported a shift of savings toward treasuries, albeit less pronounced than in the previous year. Household deposits remain the main contributor to this structural shift in the monetary structure.

Overall, financial conditions remain supportive to drive growth of consumption and investments. Financial markets are characterized by low interest rates, declining risk premia and ample liquidity. Monetary policy has maintained its stimulating stance: the base rate remained at 1.00%, the forward guidance reinforces the market expectations on the future policy course and BoA supplied the market with adequate liquidity. These conditions continued to drive lending and deposit interest rates lower this year. Lower lending rates for both households and businesses also rely on lower credit risk, mitigated by the reduction of NPLs, and the increased competition among banks. Government paper yields have fluctuated around their lowest levels and the yield curve has flattened this year, revealing a reduction in term premia.

3.2. Medium-term macroeconomic scenario

Real Sector

Economic growth is projected at the level of 4% over the next three years 2020-2022. More specifically, the medium-term economic growth of Albania is forecasted to mark the levels of 4.1% in 2020 and 4.0% in years 2021 and 2022.

Growth for 2019 is expected to be around 2.7%, which marks a slowdown compared to the continuous and considerable growth since 2014 and a peak of 4.1% in 2018 and it was mainly due to volatile and one-off factors. In November 2019 the country was struck by a severe earthquake, the economic consequences of which are yet to be evaluated in the medium-term due to the major damage caused in the districts of Durrës and Tirana, where the state emergency was announced.

In the medium term, growth is expected to be generated mainly by domestic demand, both private consumption and investments. Private consumption is expected to be driven mainly by the improvement of consumer confidence as well as improvements in the labour market. The latter are expected to be transmitted to a gradual increase in wages that are further expected to stimulate the real disposable income of individuals, creating the second-round effect on consumer demand stimulation, as well as intensifying consumer tendency for further consumption financing through a higher credit-taking rate. Meanwhile, consumer loans are forecasted to be fuelled by both the

improvement of individual financial conditions and the expected easing of lending standards from the banking system.

Whereas the growth of investments is expected to reflect already more intensive use of existing production capacities, as well as the acceleration of economic activity over the forecast period, and overall improvement of investors perception on macroeconomic stability of the country and lower risk premium over the medium and long term. At the same time, the continuation of the improvement of financial conditions and easing of lending standards as well as accommodative monetary policy and crowding-in government-borrowing policy is expected to be an important incentive factor for private investments in the medium term.

Final consumption for the medium term (2020-2022) is projected to grow in real terms by 2.7% in average per year, contributing by an average of 2.5 pp. per year to total growth. While investments are projected to grow in real terms at an average of 5.1% per year, with an average contribution to total growth of 1.2 pp. per year.

Net external demand is expected to have a positive but marginal effect in the medium term. Exports of goods are expected to have a positive trend, assuming there will be no significant negative shocks to oil and mineral prices in international markets. Exports of services, particularly services on tourism, are also expected to continue the positive trend recorded in the past and will be the main factor in offsetting the negative contribution coming from the increase in imports.

Exports of goods and services for the period 2020-2022 are projected to grow in real terms by an average of 7.2% per year, with an average positive contribution of 2.3 pp. per year to total growth. While imports of goods and services for this medium-term period are projected to expand by 4.2%, with a negative average contribution to total growth by about -1.9 pp. per year. Consequently, net foreign demand is expected to have a slightly positive contribution to total growth by an average of 0.4 pp. per year.

Chart 3.2.1: Real growth (in %)

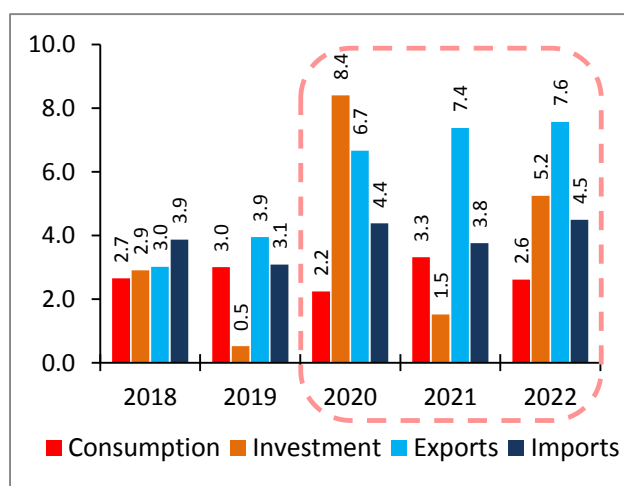
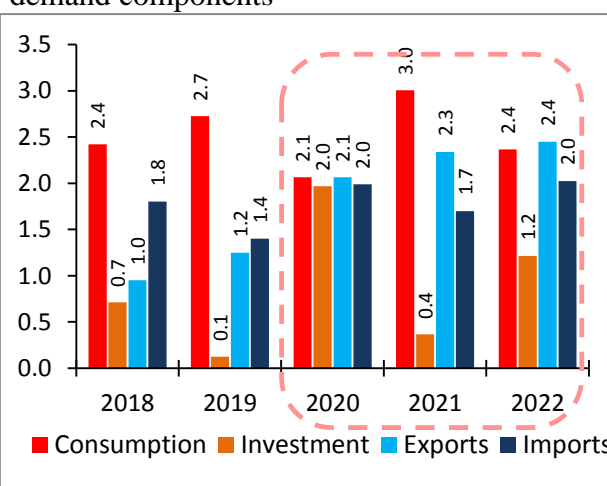


Chart 3.2.2: Contribution to growth (in p.p.) by demand components



Source: INSTAT, Ministry of Finance and Economy

Table 3.2.1: Real growth (left, in %) and contribution to growth (right, in p.p.) by demand components

	Real Growth (%)								Contribution to Growth (in p.p)							
	2015	2016	2017	2018	2019 <i>Fore.</i>	2020 <i>Fore.</i>	2021 <i>Fore.</i>	2022 <i>Fore.</i>	2015	2016	2017	2018	2019 <i>Fore.</i>	2020 <i>Fore.</i>	2021 <i>Fore.</i>	2022 <i>Fore.</i>
Final Consumption (a+b+c)	0.9	2.4	2.3	2.7	3.0	2.2	3.3	2.6	0.8	2.2	2.1	2.4	2.7	2.1	3.0	2.4
Final Consumption of the Households	0.9	2.0	2.3	3.2	2.7	1.9	3.5	2.7	0.7	1.6	1.9	2.5	2.1	1.6	2.7	2.1
Final Consumption of General Governme	-1.1	4.7	2.9	-1.2	5.4	4.4	2.2	2.2	-0.1	0.5	0.3	-0.1	0.6	0.5	0.3	0.3
Individual consumption	-3.9	1.3	1.3	-0.9	7.8	3.4	1.7	2.2	-0.2	0.1	0.1	0.0	0.4	0.2	0.1	0.1
Collective consumption	1.7	7.9	4.3	-1.5	3.2	5.3	2.7	2.3	0.1	0.5	0.3	-0.1	0.2	0.3	0.2	0.1
Consumption of NPISHs	41.7	16.4	-14.2	2.8	1.0	1.0	2.0	2.0	0.2	0.1	-0.1	0.0	0.0	0.0	0.0	0.0
Gross Fixed Capital Formation	3.5	2.4	5.5	2.9	0.5	8.4	1.5	5.2	0.8	0.6	1.3	0.7	0.1	2.0	0.4	1.2
Public	4.6	0.6	10.6	8.8	1.9	23.1	-10.3	6.0	0.2	0.0	0.5	0.5	0.1	1.3	-0.7	0.3
of which Central Government:	5.4	1.4	5.4	14.6	-3.9	28.1	-12.8	6.5	0.2	0.1	0.2	0.6	-0.2	1.3	-0.7	0.3
Private	3.2	2.9	4.1	1.2	0.1	3.8	5.9	5.0	0.6	0.6	0.8	0.2	0.0	0.7	1.0	0.9
Domestic Absorption (1+2)	1.4	2.4	2.9	2.7	2.5	3.5	2.9	3.1	1.7	2.8	3.4	3.1	2.9	4.0	3.4	3.6
Net export^a (a-b)	-8.6	-0.1	-0.3	5.7	1.1	-0.5	-4.7	-3.4	1.6	0.0	0.1	-0.9	-0.2	0.1	0.6	0.4
Exports of goods and services (f.o.b)	1.0	11.3	12.9	3.0	3.9	6.7	7.4	7.6	0.3	3.1	3.8	1.0	1.2	2.1	2.3	2.4
Exports of goods	-17.1	-5.8	5.5	15.0	-9.0	8.2	8.3	8.4	-1.6	-0.4	0.4	1.0	-0.7	0.5	0.6	0.6
Exports of services	9.9	17.9	15.1	-0.3	8.1	6.2	7.1	7.4	1.9	3.5	3.4	-0.1	1.9	1.5	1.8	1.9
Imports of goods and services (f.o.b)	-2.9	6.9	8.1	3.9	3.1	4.4	3.8	4.5	-1.4	3.1	3.7	1.8	1.4	2.0	1.7	2.0
Imports of goods	-1.9	7.9	7.8	2.6	3.0	4.8	3.9	4.1	-0.6	2.4	2.4	0.8	0.9	1.4	1.2	1.2
Imports of services	-4.9	4.9	8.7	6.5	3.2	3.6	3.4	5.3	-0.8	0.72	1.3	1.0	0.5	0.5	0.5	0.8
Change in inventories	-1.9	-36.5	-37.4	0.0	0.0	0.0	0.0	0.0	0.0	-0.5	-0.3	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	-99.0	-275.4	-110.9	-154.1	0.0	0.0	0.0	0.0	-1.1	1.0	0.7	1.9	0.0	0.0	0.0	0.0
GROSS DOMESTIC PRODUCT (3+4+5)	2.2	3.3	3.8	4.1	2.7	4.1	4.0	4.0	2.2	3.3	3.8	4.1	2.7	4.1	4.0	4.0

Source: INSTAT, Ministry of Finance and Economy

Although fiscal policy will continue to be oriented toward consolidation in the medium and long term, the government budgetary policy to preserve a level of public investments at around 6.3% of GDP in 2020-2022 (both central and local governments) will additionally stimulate gross fixed capital formation in the economy, which is crucial to sustain relatively high growth levels in the medium and long term ahead. On the other hand, relatively low levels of government net new domestic borrowing foreseen for the medium term ahead will leave more space to the private sector and create incentives for crowding-in of private investments. At the same time, the accommodative stance of monetary policy foreseen for medium term, as long as the inflationary low pressures are expected to remain at the bottom end, will support both private consumption and investment.

The government targeted fiscal consolidation will therefore constrain the overall public sector demand. As such, it is not expected to be a growth driver over the medium-term, except for 2020 where additional government spending for post-earthquake reconstruction is expected to have a positive contribution in GDP growth. However, fiscal consolidation will reduce the risk premium in the medium term and increase the scope for stimulating the private sector. At the same time, the composition of planned budgetary policies are growth supportive and therefore the tightening effects of fiscal consolidation are expected to be offset.

At the same time, this fiscal consolidation in terms of public debt and fiscal deficit will continue to be accompanied by a healthy composition between current and capital spending (public investment). Capital expenditures projected in the 2020 budget and in the medium run continue to be above 5.5% of GDP, which is on average about 3.5 - 4 percentage points of GDP more than the targeted budget deficit. Thus, the current fiscal balance will continue to remain clearly positive, in full compliance with the specific fiscal rule or "golden rule" stipulated in the Organic Budget Law.

From the aggregate supply optics is expected that all main sectors are going to perform broadly in line with their average historical growth rates. Specifically, agriculture is expected to grow in real terms by 1.3% in average per year, with an average contribution of 0.2 pp. per year; industry⁸ by an annual average of 5.3%, contributing by in average by 0.6 pp. per year; construction by 5.2% with an

⁸ Industry: include both mining and manufacturing industry

annual average contribution of 0.5 pp.; and services by an average 4.5% per year with the highest contribution in growth due to their weight with an average of 2.2 p.p. per year.

Chart 3.2.3: Real growth (in %)

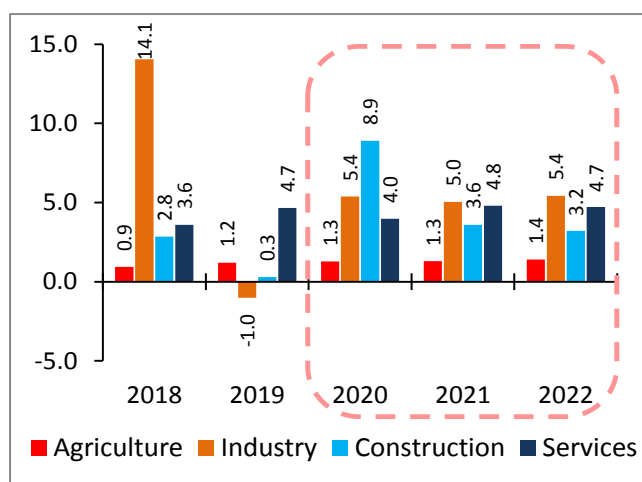
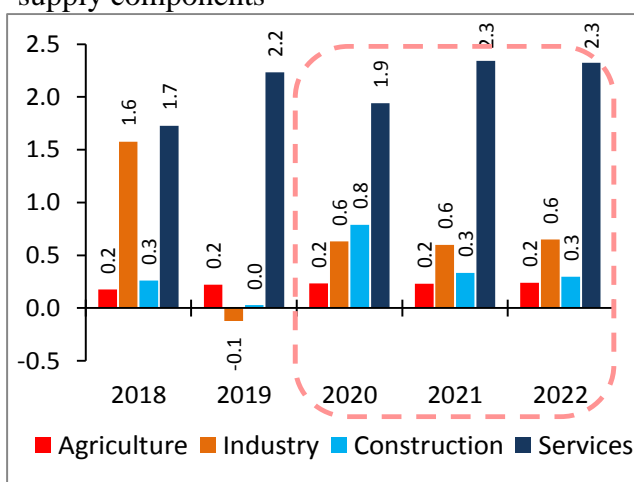


Chart 3.2.4: Contribution to growth (in p.p.) by supply components



Source: INSTAT, Ministry of Finance and Economy

Table 3.2.2: Real growth (left, in %) and contribution to growth (right, in p.p.) by supply components

	Real Growth (%)								Contribution to Growth (in p.p.)							
	2015	2016	2017	2018	2019	2020	2021	2022	2015	2016	2017	2018	2019	2020	2021	2022
					Fore.	Fore.	Fore.	Fore.					Fore.	Fore.	Fore.	Fore.
Agriculture, forestry and fishing	0.8	2.0	0.8	0.9	1.2	1.3	1.3	1.4	0.2	0.4	0.2	0.2	0.2	0.2	0.2	0.2
Mining and quarrying industry	-8.0	-12.1	4.2	8.3	12.1	6.3	6.2	6.4	-0.4	-0.4	0.1	0.2	0.3	0.2	0.2	0.2
Manufacturing industry	5.0	4.5	12.2	6.4	4.1	4.4	4.7	5.1	0.3	0.3	0.7	0.4	0.3	0.3	0.3	0.3
Electricity, gas, steam and air conditioning supply	7.7	9.9	-32.6	49.5	-25.3	7.8	5.1	5.6	0.1	0.3	-1.1	1.0	-0.7	0.2	0.1	0.1
Water supply; sewerage, waste management and remediation activities	1.1	1.3	14.8	3.7	3.1	3.7	3.4	3.9	0.0	0.0	0.1	0.0	0.0	0.0	0.0	0.0
Construction	6.2	2.5	7.0	2.8	0.3	8.9	3.6	3.2	0.5	0.2	0.6	0.3	0.0	0.8	0.3	0.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	-1.9	2.0	1.9	5.3	5.1	4.7	5.3	5.4	-0.2	0.2	0.2	0.6	0.6	0.5	0.6	0.6
Transportation and storage	6.5	5.8	4.9	3.9	4.8	4.6	5.3	4.9	0.2	0.2	0.2	0.1	0.2	0.2	0.2	0.2
Accommodation and food service activities	6.7	11.7	14.2	9.2	9.1	7.3	8.4	7.0	0.1	0.2	0.3	0.2	0.2	0.2	0.2	0.2
Information and communication	7.6	5.9	4.2	-1.7	6.9	3.2	3.1	2.9	0.2	0.2	0.1	-0.1	0.2	0.1	0.1	0.1
Financial and insurance activities	5.1	8.7	11.1	3.2	11.9	4.2	7.8	4.4	0.1	0.2	0.3	0.1	0.3	0.1	0.2	0.1
Real estate activities	0.8	1.1	1.6	1.0	8.4	3.0	3.6	3.2	0.0	0.1	0.1	0.1	0.5	0.2	0.2	0.2
Professional, scientific and technical activities	6.1	-0.8	14.3	7.8	6.2	3.5	4.4	5.2	0.2	0.0	0.4	0.2	0.2	0.1	0.1	0.2
Administrative and support service activities	13.9	12.9	8.9	8.1	6.0	4.4	4.7	4.5	0.3	0.4	0.3	0.3	0.2	0.2	0.2	0.2
Public administration and defence; compulsory social security	2.2	5.3	7.8	1.1	2.8	1.7	3.1	4.5	0.1	0.2	0.3	0.0	0.1	0.1	0.1	0.2
Education	-0.4	-2.6	8.0	2.1	4.7	4.3	4.8	4.7	0.0	-0.1	0.3	0.1	0.2	0.2	0.2	0.2
Human health and social work activities	2.7	5.8	10.6	1.3	4.9	4.2	4.6	4.8	0.1	0.2	0.3	0.0	0.1	0.1	0.1	0.1
Arts, entertainment and recreation	-0.2	-0.7	-1.6	3.0	-49.8	2.6	4.1	4.7	0.0	0.0	0.0	0.0	-0.5	0.0	0.0	0.0
Other service activities	12.7	24.1	7.6	2.8	3.2	2.4	3.9	4.3	0.1	0.3	0.1	0.0	0.1	0.0	0.1	0.1
GVA at basic prices	2.3	3.2	3.9	4.3	2.7	4.1	4.0	4.0	2.0	2.8	3.4	3.7	2.4	3.6	3.5	3.5
Net taxes on products	1.8	4.2	3.4	3.2	2.8	4.2	4.1	4.1	0.2	0.5	0.4	0.4	0.3	0.5	0.5	0.5
GDP at market prices	2.2	3.3	3.8	4.1	2.7	4.1	4.0	4.0	2.2	3.3	3.8	4.1	2.7	4.1	4.0	4.0

Source: INSTAT, Ministry of Finance and Economy

In line with the medium term growth projections, employment is expected to grow by an average of 2.0% per year during 2020-2022. Higher labour force participation rate is expected to be the main driver of labour supply growth. Whereas the growth of labour demand is expected to reflect more or less the same structure as the aggregate supply of economic activity. Therefore, services are expected to contribute more in the labour demand increase than the rest of economic supply sectors. Despite the expected expansion of employment over the medium term, again, overall labour productivity is expected to have a slight improvement over this period. Unemployment is expected to continue a gradual reduction reaching at 9.4% in 2022.

Chart 3.2.5: Employment (y-o-y growth in %)

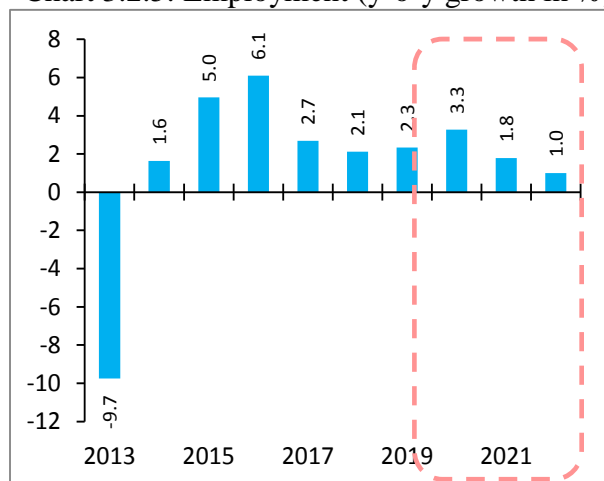
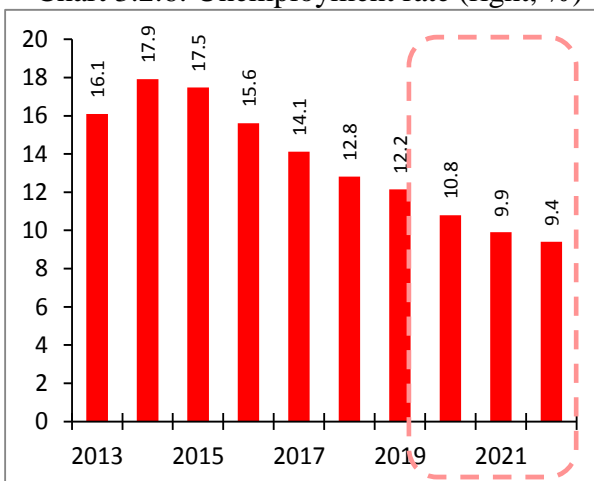


Chart 3.2.6: Unemployment rate (right, %)



Source: INSTAT, Ministry of Finance and Economy

Monetary and exchange rate policy and inflation

Bank of Albania's primary objective is that of price stability, which the bank pursues under an inflation targeting regime. The bank has deemed a 3% inflation rate in the medium term to be an adequate rate that promotes stable prices and fosters growth for our economy. The main instrument for achieving the target is the interest rate applied in reverse repo operations with one-week transaction maturity. The cyclical position of the economy and the low inflationary pressures have justified an expansionary monetary policy in the last years. The interest rate currently is set to 1.0%, its lowest historical value. The forward guidance used by the bank has informed market agents of the continuation of the stimulus thus providing guarantees that reduce uncertainty and risk premia.

The Bank of Albania commits to a floating exchange rate regime, where demand and supply movements in the foreign exchange markets determine the exchange rate. The Bank intervenes regularly in the markets with the purpose of maintaining adequate levels of foreign reserves on a pre-set schedule of auctions. In 2018 the Bank of Albania initiated foreign currency interventions in the domestic foreign exchange market, which helped curb an appreciation trend of the exchange rate, which was caused by temporary shocks to the economy. Although the Bank maintains that the foreign exchange market interventions are still a tool at its disposal to support price stability, there has been no apparent need for their adoption last year.

The monetary stimulus during the years has provided lower financing costs to the economy, by supporting domestic demand through increased private consumption and investment, which have been the main drivers of economic growth. Favorable weather conditions last year led to a largely increased electricity production. This development, stemming from a one-off event created a high base effect which caused a negative contribution of the production sector in the economic growth in the first half of the year. Domestic inflationary pressures have built up, reflecting the improvement of cyclical position of the economy, amid higher capacity utilization and tightening labor market. However, these pressures have yet to be transferred to the inflation rate, which has remained below the Bank's target during this period. The Bank's projections suggest that the economic expansion will continue in the medium term, and the output gap to slowly narrow. The inflation rate is expected to pick up from 2020, and gradually converge to its target rate of 3% in the second half of 2021. Consistent with the achievement of price stability, the monetary policy will continue to be accommodative in the medium term.

The balance of risks remains skewed on the downside. The main risks are linked to developments in the global economy on the external environment and on the domestic environment by the repercussions of the earthquake that hit Albania in late November 2019.

The current policy mix comprises an accommodative monetary policy by the Bank of Albania and a consolidatory drive of the fiscal policy by the government. The current drive is considered a necessary move, given the high level of public debt. This development reduced the government's borrowing in the domestic markets, thus creating little crowding-out of the private sector. This policy mix is appropriate to create the conditions that nurture economic growth and ensure that the country converges to a sustainable and stable growth path.

External sector and its medium-term sustainability

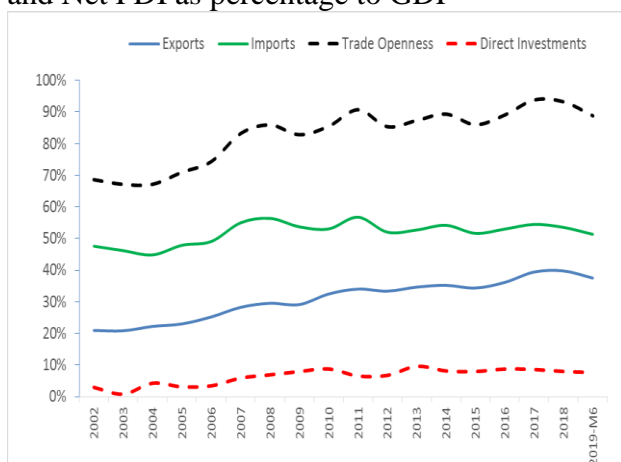
Balance of Payment and merchandise trade developments

The current account deficit has expanded substantially in the first 9 months of 2019 (nearly 38.9% on annual basis). That was by large a consequence of deteriorating developments in merchandise trade. Exports of goods have decreased by nearly 7.3% annually because of falling electricity exports. At the same time, imports sharply increased (by nearly 7.5%) as a result of higher electricity imports. These developments are symmetrically opposite to the first 9 months of 2018, when favourable weather conditions enabled large increments in electricity output and exports, additionally enabling falling imports, in particular during the first half of the year. The remaining commodity groups did not help much in balancing the situation. Unfavorable international demand and price conditions were instrumental in the poor performance from certain key export commodities like “textiles” and “metals”. Growth in other sectors has been also poor with the exception of “foodstuffs”.

The real appreciation of lek has been on a declining trend during 2019. REER has followed a similar path to that of the nominal exchange rate, as the inflation differential against our main trading partners continues to be small. REER annual appreciation stands at 0.7% in December 2019, vs 9.1% at end-2018.

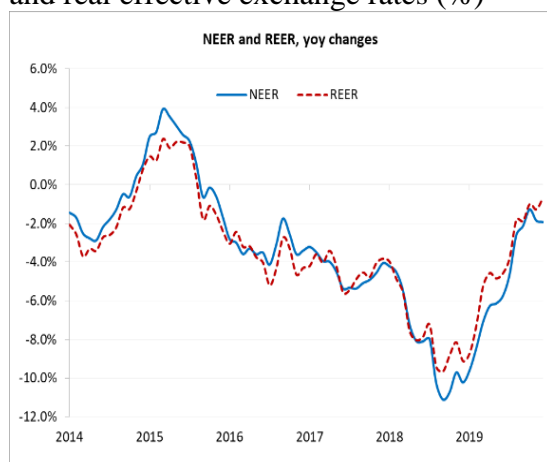
In terms of export destination, falling shares have characterized the partners receiving “electricity” from Albania, like Switzerland and Serbia. However, the overall structure has not mutated much. Italy still obtains the bulk of Albanian commodity exports (with nearly 49% of total). Additionally, in spite of recent setbacks, “textiles and garments” represent the bulk of overall exports with nearly 40% of total.

Chart 3.2.7: Trade openness, exports, imports and Net FDI as percentage to GDP



Source: Bank of Albania, INSTAT

Chart 3.2.8: Annual changes of nominal and real effective exchange rates (%)



According to the Constant Market Share (CMS)⁹ decomposition of Albanian exports, increased competitiveness (residual component) has been the leading contributor to export growth towards the

⁹ See <http://go.worldbank.org/KQCHUD4JN0> for a discussion on CMS.

EU-15 area in 2018 followed by world export growth. On the other hand, negative contributions are associated with market distribution and commodity composition. In the case of trade with CEFTA countries, competitiveness was once again the main factor. All the other factors have also generated positive contributions.

Table 3.2.3: Decomposition of Albanian Exports using the CMS methodology (EUR million)

	2018	
	EU-15	CEFTA
World Export Growth	82.4	17.5
Commodity composition	-9.0	8.0
Market Distribution	-0.7	7.8
Competitiveness	162.6	65.1
Total	235.3	98.4

Source: Bank of Albania, INSTAT, UN Comtrade

The service sub-account has generated opposite contributions to goods in terms of overall current deficit. The service surplus has expanded by 11.9% in the first 9 months of 2019, with exports increasing by 9.9%. Travel receipts, “other services” and “physical inputs” were the main drivers for the export growth. Although the growth rates remain high, they have been losing some steam. The slowdown commenced already in 2018. That is mainly due to travel exports not growing as fast as before and exports of “physical inputs” (mainly ready-made export oriented garments) have been in some difficulty. At the same time, service imports have been on sharp increasing trends because of higher travel outflows. The annual growth rate stands at nearly 8.7%. High growth rates have been observed since 2017. High growth rates have been observed since 2017.

Primary income reflected a net deficit at EUR 82.6 million in the first nine months of 2019 as compared with a net deficit of EUR 20.1 million in the corresponding period of the previous year. These dynamics were largely linked to increased income outflows associated with direct investment.

The secondary income surplus has expanded by nearly 3.6% annually in the first nine months of 2019. Net remittances increased by 3.6% annually setting the tone for the overall account. On the other hand, “income inflows of the general government” have dropped 28.3% on the back of a strong base effect from the previous year.

Current account developments are expected to moderate in the final quarter 2019 as the base effect of “electricity” dissipates. Growth in remittances will remain low as it was in the first half of the year. Therefore, the current account deficit will expand for the whole 2019, but at a lower rate compared with the first half of the year. Going forward into 2020, difficulties in terms of exports are deemed to persist as foreign demand and price condition assumptions are not positive. Service will try to make up for some export growth. However, as forecasts for domestic demand are on the increasing trend, import growth is to intensify. Electricity imports will provide some base effect from 2019 into 2020, but growth in services will boost overall imports. Finally, as remittances are not viewed to rebound in the next year, the current account deficit is forecasted to further expand in 2020.

Net foreign direct investments have increased by 0.1% on annual aggregate terms during the 9 months of 2019. FDIs associated with the major projects in the energy sector (in particular the Trans-Adriatic Pipeline) have been entered the final stages of construction. These projects are poised to determine FDI developments in remainder of 2019 as well as in 2020. However, FDI inflows have benefited from certain unexpected positive shocks in the “real estate sector” due to non-resident purchases of homes in Albania (the main contributor to FDI inflow growth in 2018). Additionally, mining sector FDIs have shown signs of some revitalization in recent quarters. Such development might produce some counter-balance to falling inflows in the energy sector.

Portfolio investment reflected net assets at EUR 8.2 million across the first nine months of 2019 compared to net assets at EUR 126.9 million in the corresponding period of the previous year. Both assets and liabilities have been decreasing, but with higher impact in the case of assets. That was particularly the case for “debt securities”. Additionally, reserve assets have decreased by nearly EUR 4.7 million in the first nine months of 2019.

In terms of current deficit, financing, non-debt-creating flows mainly in the form of Direct Investment remain the primary contributor.

External Debt developments

The stock of the gross external debt of Albania reached EUR 8,328.5 million in the third quarter of 2019 standing at 61.6% on nominal GDP.. The debt to GDP ratio has been rapidly decreasing in the past 2 years. Long-term debt constitutes 80.0% of total gross debt composed primarily of long-term loans to the general government and other sectors. Short-term debt stands at 20.0% of total debt.

From a sustainability perspective, the long-term repayment capacity indicators of the external debt of Albania have recently improved. The ratio of gross external debt over exports of goods and services stood at 156.2% at end of the third quarter of 2019, down from 161.5% a year ago.. Additionally, the ratio of external debt stock over fiscal revenues stood at 221.5% as compared to 237.8% a year ago. The ratio of the general government’s debt stock over fiscal revenue stood at 101.1% down from 104.3% a year ago. Liquidity adequacy indicators reveal low pressures from overall debt servicing. The ratio of external debt amortization over exports of goods and services recorded 9.4%.

Chart 3.2.9: External debt over exports of goods and services (left) and over fiscal revenues (right)

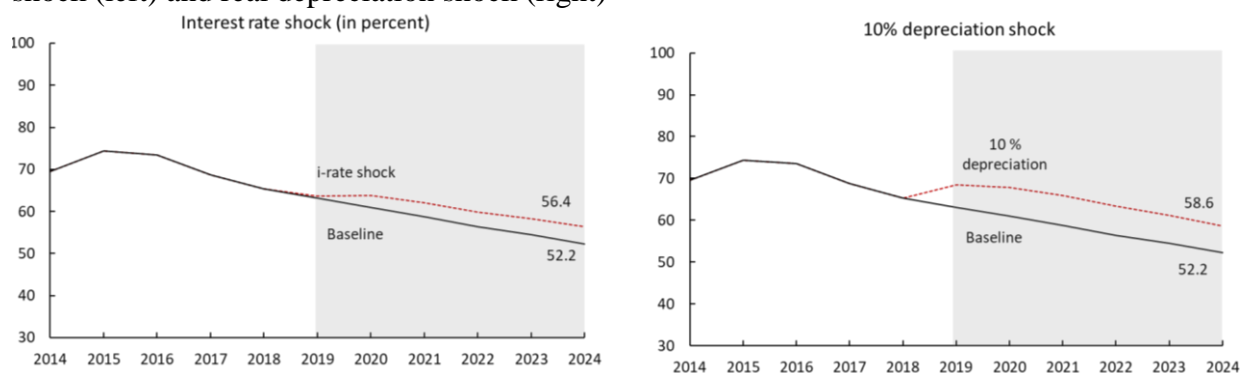


Source: Bank of Albania

The short-term external debt stock over nominal GDP ratio stood at 12.1% at the end of the third quarter of 2020, down from 13.1% in the third quarter of 2018. At the same time, the ratio of exports of goods and services over short-term external debt stands at 326.7% up from 304.7% in the third quarter of 2018.

In our baseline scenario for 2019, we expect the gross external debt to GDP maintain its downward trend of the past 3 years and reach about 52.2%. However, this projection is surrounded by a range of upward risks, which we take into account to carry out our external debt sensitivity analysis to a range of adverse shocks. Here, we simulate an interest rate and an exchange rate shocks. In the first scenario, the average interest rate paid on the external debt increases permanently by two standard deviations whereas in the second scenario the domestic currency is shocked by a one-off depreciation of 10%. The deviation of the external debt from the baseline projection is stronger under the depreciation scenario.

Chart 3.2.10: Gross External Debt to GDP at baseline and under risk scenarios: Nominal interest rate shock (left) and real depreciation shock (right)

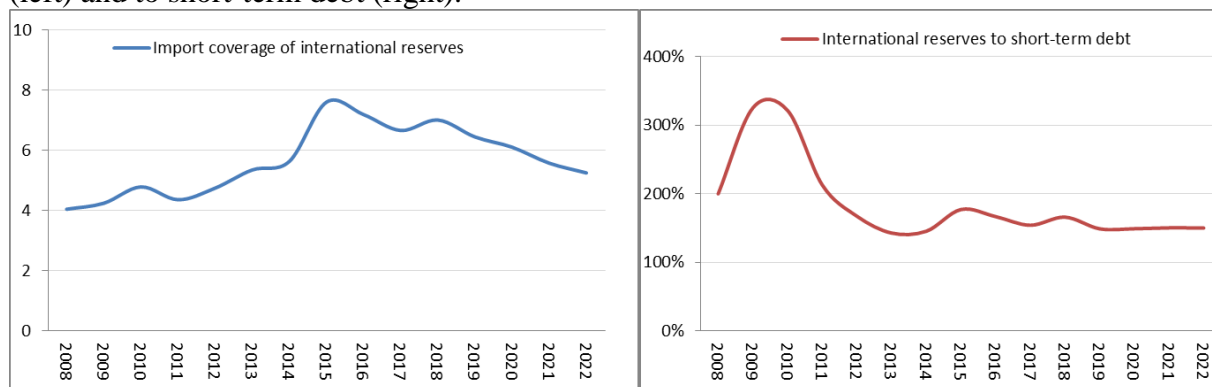


Source: Bank of Albania

Reserve stock developments

The adequacy criteria for the stock of International Reserves held by Bank of Albania is determined in terms of a minimum of 4 months of imports of goods and services and 100% coverage of the external short-term debt. As of end December 2019, the stock of the gross international reserves of Bank of Albania stands at 3,360 million euros, estimated to be around 24.5% of GDP. In terms of the adequacy criteria, the foreign reserve is estimated to cover around 6.6 months of imports of goods and services and around 155% of the external short term debt on average in 2019. In the medium run, both these criteria are expected to remain well above their adequacy levels of 4 months of imports of goods and services and 100% coverage of the external short-term debt.

Chart 3.2.11: Projection of international reserves relative to imports of goods and services in months (left) and to short-term debt (right).



Source: Bank of Albania

Financial sector

The financial sector and its intermediary role, as measured by the size of its assets, has continued to expand during the first 9 months of 2019. A structural break in the balance sheet of one of the systemically important banks (BKT) at the end of 2018 has resulted in a small contraction in the balance sheet of the banking sector and a slight decline in the weight of banking sector assets to GDP. As of June 2019, total assets of the financial system amounted to 104.4% of GDP, or 2.5 p.p. less compared to the ratio of December 2018. Investment and pension funds, insurance companies and SLAs continued to expand their activity, but their relative size to GDP remained unchanged from the end of 2018. The segment of nonbank financial institutions (NBFIs) recorded a strong increase both in nominal and relative terms. As at end of June 2019 the assets of NBFIs grew by 23% yoy, while their capitalization levels remains strong and the credit quality has improved significantly¹⁰.

¹⁰ The NPLs level for NBFIs dropped to 9% in June 2019 from 13% in December 2018.

Table: 3.2.4: Assets of the financial system

Supervisory authority	Assets/GDP (%)	2011	2012	2013	2014	2015	2016	2017	2018	Jun-19
Bank of Albania	Banks	88.1	92.1	94.8	97.6	97.3	100.5	99.4	96	93
	Nonbank financial institutions	2.7	2.7	2.7	3	2.9	3	3.1	3.5	3.9
	SLAs and SLA Unions	0.8	0.8	0.7	0.8	0.8	0.6	0.6	0.6	0.7
Financial Supervisory Authority	Insurance companies	1.5	1.6	1.7	1.9	2.1	2.1	2.1	2.1	2.2
	Pension funds	0	0	0	0	0.1	0.1	0.1	0.2	0.2
	Investment funds		1.2	3.9	4.8	5	4.7	5	4.5	4.5
	Total FS assets/GDP	93.1	98.6	103.8	108.2	108	111	110.3	106.9	104.4

Source: Bank of Albania

From January to September 2019, the balance sheet of the banking system expanded by 2.5% or 35 bn leks and amounted to 1,450 bn leks. This growth was supported by a 4% growth in the credit stock and a 2% expansion in the stock of securities holdings of the banking sector. On the liabilities side, the increase was supported by a 22 bn lek increase in the stock of deposits and a 15 bn lek increase in the stock of treasury and interbank transactions. Total deposits held in domestic banks amounted to 1,170 bn lek at the end of September 2019 and represent about 80% of total liabilities of the banking sector. The degree of financial intermediation by banks has shown a slight decline over the period 2014-2019 with the Loan to Deposit ratio dropping to 49% from 56%, due to the sluggish credit growth vis-a-vis a moderately fast growth in deposits, especially between the period 2014-2016. However, from January 2019 to September 2019 growth in the stock of credit (3.6%), driven by growth in long-term credit in domestic currency for the private sector (both businesses and households), was significantly higher than growth in the stock of deposits (1.9%).

Table: 3.2.5: Growth in the stock of credit and deposits

	2014	2015	2016	2017	2018	Jan -Sep' 2019
Loans (yoy, %)	5	-2	2	0	-3	3.6
Deposits (yoy, %)	5	3	5	1	1	1.9
Loans/Deposits (%)	56	54	52	52	49	49

Source: Bank of Albania

The expansion in credit to resident borrowers over the first half of 2019 reflected increased borrowing by households in domestic currency and for house purchases and by businesses for construction purposes, at a time when interest rates on new loans continued to decline. Survey results indicate that the debt burden for both companies and households remains manageable, while demand for loans over the short term horizon is expected to be moderate. The external debt of non-financial companies and households has recorded a moderate increase over the last 4 years by reaching ca. Eur 1,360 mln at the end of Q2 2019 from Eur 1,280 mln at the end of 2016. Over the same period, the stock of external debt in the form of intercompany lending dropped from Eur 1,790 mln to Eur 1,705 mln.

For next year, we expect credit to continue to increase at a moderate-to-good pace. Our expectation is based on solid liquidity and capital position of banks, improving asset quality, relatively good economic growth projections and low levels of debt on households and businesses balance sheets. Downside risks are present and relate mostly with lower than expected economic growth (due to lower regional and European growth, as well as from short-term impact of November 26 earthquake especially on tourism), or weaker credit demand.

In early November 2019, BoA and Albanian Association of Banks have agreed on a Platform for credit recovery. The Platform, which is published, includes short and medium term actions, involving banks and BoA, as well as Government agencies. The main goal of proposed actions is to reduce credit risk and support credit demand.

The domestic financial system and the banking system whose assets account for ca 90% of the total assets of the financial system is stable, profitable and well-capitalized. The capitalization level of the banking sector stood at 18.8% at the end of September and has been steadily increasing over the last few years, mostly as a result of growth in the regulatory capital of banks, but also as a result of lower growth rate in the level of risk-weighted assets. Banks and other financial institutions have continued to record positive financial results and profitability indicators have remained unchanged or have shown a slight increase compared to 2018 and 2017. Return on Equity (RoE) for the banking sector at end September was 13.7% but banks which hold more than 50% of total banking system assets have a RoE higher than 16.3%. The liquidity position of the banking system is strong and liquidity indicators (Liquid Assets over Total Assets and Liquid Assets over Short Term Liabilities) have continued to increase and remain well above the lower regulatory limits. According to Solvency Stress Tests of the banking sector, under the baseline scenario over the medium term horizon (2019-2020), all banks remain solvent and capable of carrying out their normal operations without resorting to capital injections.

The quality of bank credit has improved steadily during the first nine months of 2019, primarily due to the significant decline (-20% yoy as at end September 2019) in the stock of nonperforming loans (NPLs), but also as a result of the pick-up in credit growth. The NPLs ratio fell to 10.6% at the end of September 2019 marking the lowest level since December 2009. At the same time, the share of lost loans within the stock of NPLs has dropped from 60% in Q1 2017 to 42% at the end of September 2019. The decline in the stock of NPLs during the first 9 months of 2019 has come from repayment of bad loans, as well as from bad loans write-offs and reclassifications. The amount of lost loans (3 years+) that have been written off from banks' balance sheets since Q1 2015 is about 60 billion leks, and this amount is equal to the actual total stock of NPLs.

The quality of credit is expected to continue to improve further, whereas credit risk is expected to remain subdued over the short to medium term. The NPLs ratio is expected to maintain its declining trend both as a result of the continued contraction in the NPLs stock and a stronger credit growth. Starting from January 1st 2020, banks are required to erase loans that have been classified as lost loans for 2 years or more. This measure is expected to further boost the decline in the NPLs stock and NPLs ratio and to result in improved scope for domestic banks to expand credit. The coverage of outstanding credit with collateral has improved considerably. As at end September 2019, this ratio stands at 80%, and it is about 6 p.p. higher than the average level of the last 4 years.

The financial system and the banking sector remain particularly vulnerable to the market risks and, to a lesser extent to the profitability risk. Developments in the net open foreign currency position and in the portfolio of unhedged foreign currency loans indicate that the exposure of the banking sector to the direct and indirect foreign exchange risk has declined over the course of 2019. However, the share of unhedged foreign currency loans to total loans (24%) remains high and requires careful and continuous monitoring by the industry and the supervisory authority. The gap between interest-rate sensitive assets and liabilities as a share of regulatory capital of the banking sector is small (close to 2%), but the predominance of variable-rate loans in the overall loan portfolio and the historically low interest rate spreads, suggest a heightened vulnerability of present and future borrowers in the event of an interest rate correction over the medium term horizon.

Macroprudential supervision

Macroprudential Policy

After a two year preparatory period and an extensive consultation process with the banking industry, the Supervisory Council of BoA adopted Regulation no.41, dated 05/06/2019 “On macroprudential capital buffers”. The set of macroprudential capital buffers includes the conservation capital buffer, the countercyclical capital buffer, the capital buffer for systemic risk and the capital buffer for systemically important institutions. As of end November 2019, BoA has activated the conservation buffer set at 0.5% for all banks, the countercyclical capital buffer set at 0% and the buffer for 4 systemically important banks which ranges from 0.5% to 1.5%. This Regulation approximates in a comprehensive manner the respective stipulations in EU directive. The implementation of these capital-based measures is expected to contribute to the strengthening of the resilience of the banking sector to shocks.

Over the period 2020-2022, BoA plans to develop:

- The framework for the possible adoption of borrower-based macroprudential tools that target borrowers, such as Loan to Value and Debt to Income caps.
- The framework for assessing risks arising from interconnectedness within the financial system; The development of such frameworks, will be extensively covered in the recently launched Twinning Project of BoA with several EU central banks;
- The stress-testing for macroprudential risks.

Microprudential supervision

NPL resolution

We have continuously monitored the Action Plan for the NPL resolution. As part of that Plan, the Supervisory Council of the Bank of Albania:

- by its decision no. 51, dated 03.07.2019, approved the new Regulation “On out of court treatment of distressed borrowers by banks”; and
- by its decision no. 52, dated 03.07.2019, approved some amendments to the Regulation “On credit risk management by banks and foreign banks’ branches”, whereby the maximum period of time allowed for a “loss” loan before being written-off was reduced to 2 years (from 3 years).

It is now our assessment that the Action Plan on NPL resolution is completed. Despite improvements in asset quality, NPL resolution aiming at lower NPL levels will remain at the focus of our supervisory work and communication with banks for the next year.

Recent supervisory and regulatory changes

In addition to Decisions no.51 and 52 above, during the period January - October 2019, other acts and amendments to the regulations in force have been approved by Supervisory Council of Bank of Albania, respectively:

- 1) By Decision no. 2, dated 9.1.2019, the Supervisory Council of the Bank of Albania approved some amendments to the Regulation “On bank's regulatory capital”, aiming the approximation of Bank of Albania’s requirements, proportionally with the Basel III requirements for capital ratios;
- 2) By Decision no. 27, dated 28.3.2019, the Supervisory Council of the Bank of Albania approved the new Regulation "On liquidity coverage ratio", approximating the European regulations 575/2013/EC[1] and 2015/61/EU[2] and the provisions of the Basel III document[3]. This Regulation aims to complete the regulatory framework in force for liquidity risk administration,

¹ Regulation (EU) No 575/2013 of the European Parliament and of the Council “On prudential requirements for credit institutions and investment firms”.

² Commission Delegated Regulation (EU) 2015/61 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions.

³ The Liquidity Coverage Ratio and liquidity risk monitoring tools.

through presenting this new indicator (LCR), defines the criteria and rules for calculating the liquidity coverage ratio (LCR) and sets the supervisory authority's requirements for the minimum level of this ratio.

- 3) By Decision no. 46, dated 3.7.2019, the Supervisory Council of the Bank of Albania approved some amendments to Regulation no. 14/2009 "On granting the license and the exercise of banking activity of banks and branches of foreign banks in the Republic of Albania" (Moneyval Report Recommendations on the V Round evaluation for Albania);
- 4) By Decision no. 47, dated 3.7.2019, the Supervisory Council of the Bank of Albania approved some amendments to Regulation no. 01/2013 "On licensing and exercising the activity of non-bank financial institutions" (Moneyval Report Recommendations on the V Round evaluation for Albania);
- 5) By Decision no. 48, dated 3.7.2019, the Supervisory Council of the Bank of Albania approved some amendments to Regulation no. 104/2016 "On licensing and exercising the activity of savings and credit associations and their unions" (Moneyval Report Recommendations on the V Round evaluation for Albania);
- 6) By Decision no. 49, dated 3.7.2019, the Supervisory Council of the Bank of Albania approved some amendments to Regulation no. 31/2007 "On the licensing, organization, activity and supervision of foreign exchange bureaus" (Moneyval Report Recommendations on the V Round evaluation for Albania);
- 7) By Decision no. 50, dated 3.7.2019, the Supervisory Council of the Bank of Albania approved some amendments to Regulation no. 02/2013 "On risk management in the activity of non-bank financial institutions" (Moneyval Report Recommendations on the V Round evaluation for Albania).
- 8) By Decision no. 60, dated 4.9.2019, the Supervisory Council of the Bank of Albania approved the new Guideline "On banks' stress tests", which aims to approximate the provisions of the European Banking Authority's Guideline EBA / GL / 2018/04 "Guidelines for Institutions' Stress-Tests". This guideline sets out the requirements and methodologies for conducting stress tests by banks as part of their risk management process, and especially in the context of the internal capital adequacy assessment process. This guideline also aims to ensure convergence of the practices followed by banks, when conducting stress tests.

Supervisory and regulatory changes that are in process

- Regarding the further approximation with Basel III requirements:
 - Draft amendments to the Regulation "On capital adequacy ratio" are finalized, aiming at further alignment with European Regulation 575/2013. These amendments have been consulted with the banking industry as well. The draft amendments are expected to be submitted for approval by the Supervisory Council within the fourth quarter of 2019.
 - Draft amendments to the Regulation "On the risk management from large exposures of banks", have been prepared aiming at further approximation with the latest amendments to the Capital Requirements Regulation, to the Basel Committee documents on the regime of large exposures, as well as the EBA Guidelines on connected clients. The draft amendments will be submitted for consultation with banks and are expected to be approved during first quarter of 2020.
- In order to comply with the recently revised provisions of the special law, as well as in accordance with implementation of the Moneyval Report Recommendations, the Bank of Albania has finalized the draft amendments to the following regulations, which have been consulted with the interested entities, and will be submitted for approval by the Supervisory Council within the fourth quarter of 2019:
 - Regulation "On the prevention of money laundering and terrorism financing";
 - Regulation "On consolidated supervision";
 - Regulation "On the supervision of electronic banking transactions".

The banking sector resolution framework as part of the financial sector reforms

During 2019, Bank of Albania in the capacity of the Resolution Authority has enhanced the regulatory framework in alignment with the European developments in banks' resolution framework and the new banking package requirements, has finalized the first cycle of resolution planning and has followed the necessary measures to build-up the Resolution Fund.

Development in the banking sector resolution framework 2019

With regard to the regulatory framework:

1. By decision No.33/2019 the Supervisory Council of the Bank of Albania has approved the regulation "Determining the extent of powers and competencies to be exercised by organizational units in Bank of Albania on the framework of recovery and resolution of banks". This regulation defines the internal bodies and organizational units' at Bank of Albania in charge for exercising the early interventions and resolution powers and competencies pursuant to the Law 133/2016 "On the recovery and resolution of banks in Republic of Albania".

2. By decision No. 44/2019, the Supervisory Council of the Bank of Albania has approved the regulation "Valuation for resolution purposes" which defines the criteria and conditions for the selection of independent valuer, the criteria and methodology for valuation before and after resolution as well as valuation of derivative liabilities. This regulation is in alignment with the Regulatory Technical Standards of the European Banking Authority "On valuation for the purposes of resolution and on valuation to determine difference in treatment following resolution under Directive 2014/59/EU on recovery and resolution of credit institutions and investment firms", respectively EBA / RTS 2017/05 – 06 and "On the valuation of derivatives pursuant to Article 49(4) of the Bank Recovery and Resolution Directive (BRRD)" respectively EBA/RTS/2015/1.

3. During 2019, Bank of Albania drafted the first version of the regulation "On the minimum requirements for regulatory capital instruments and eligible liabilities – MREL" to be partly aligned with Directive 2019/879 (BRRD II) amending Directive 2014/59/EU as regards the loss-absorbing and recapitalization capacity of credit institutions and investment firms and Directive 2019/876 (CRR2) amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012.

With regard to resolution planning, Bank of Albania has finalized the first cycle of the resolution plans for the systemic banks, including the identification of critical functions, the preferred resolution strategy and the possible impediments to resolvability. A thorough analysis of critical functions identified by banks as part of recovery planning has also been carried out with the appropriate assessment being notified to the individual banks.

Concerning the build-up of the Resolution Fund, the audited financial statement of the fund were finalized by the first trimester of 2019 and the annual contribution for the second year was collected by April 2019. The Resolution Fund as defined in Law 133/2016, is administered by Albanian Deposit Insurance Agency, based on the document "Policy of the Resolution Fund Administration", which is prepared and proposed by the Albanian Deposit Insurance Agency and adopted by Bank of Albania. Bank of Albania monitors the performance of financial assets of the Resolution Fund through the reports submitted by the Albanian Deposit Insurance Agency, on quarterly basis.

Following the signing off of the Cooperation Arrangement between the Bank of Albania and the Single Resolution Board (SRB) a resolution planning team from the Bank of Albania was invited and participated in two Resolution College meetings for two EU banks under the SRB remit, with the respective subsidiaries performing banking activity in Albania.

Main focus on 2020-2022

Over the medium term 2020-2022, the Resolution Function at Bank of Albania shall address the following issues:

- Strengthening the resolvability of banks through drafting and updating resolution plans for all individual banks operating in Albania, identifying potential impediments to resolvability and taking all measures to remove those impediments. Resolution plans aims to facilitate the effective use of resolution tools by Bank of Albania, support the maintenance of critical functions and make bank's resolution feasible.
- Completing the regulatory framework in line with the EU framework on determining the relevant policies related to Minimum Requirement for own funds and Eligible Liabilities (MREL) for banks and provide banks with an indicative and later final target for MREL, to be reached within an appropriate transitional period.
- Achieving the target level of the "Resolution Fund" through the payment of banks' annual contributions and monitoring the investment policy of the financial assets of the fund, in accordance with the provisions of the law and the regulatory acts designed for this purpose.
- Enhancing the co-ordination and co-operation with other organizational units within the Bank of Albania, other national institutions and agencies as well as counterpart institutions and international organizations pursuant to the provisions of the Law "On Recovery and Resolution of Banks in the Republic of Albania".
- Strengthening the technical capabilities of the banks' resolution personnel through training and collaboration with similar institutions in this field.

3.3. 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 (modelling). Therefore, the alternative scenarios are based on different economic growth assumptions from the baseline for each year 2020 – 2022.

Table 3.3.1: Alternative assumptions in each scenario

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Est.	Proj.	Proj.	Proj.
Real GDP growth (%)										
<i>Baseline</i>	1.0	1.8	2.2	3.3	3.8	4.1	2.7	4.1	4.0	4.0
<i>Pesimistic</i>								3.1	3.0	3.0
<i>Optimistic</i>								4.6	4.5	4.5
Nominal GDP (in billion Lek)										
<i>Baseline</i>	1,350	1,395	1,434	1,472	1,551	1,631	1,689	1,777	1,880	1,990
<i>Pesimistic</i>								1,760	1,844	1,933
<i>Optimistic</i>								1,786	1,898	2,019
Revenue (% of GDP)										
<i>Baseline</i>	24.2	26.3	26.4	27.6	27.7	27.6	27.4	28.7	27.7	27.6
<i>Pesimistic</i>								28.2	27.2	27.1
<i>Optimistic</i>								28.7	27.7	27.6
Overall fiscal balance (in billion Lek)										
<i>Note: The overall fiscal balance in nominal terms for each alternative scenario is targeted to be more (less) in the case of the pesimistic (optimistic) scenario than the baseline nominal balance by 50% of the total revenue difference between the baseline and each respective alternative scenario</i>										
<i>Baseline</i>	-66.9	-72.1	-58.2	-26.7	-31.0	-26.2	-32.9	-39.7	-36.9	-32.9
<i>Pesimistic</i>								-46.5	-46.5	-45.6
<i>Optimistic</i>								-38.5	-34.4	-28.9

Source: Ministry of Finance

4. FISCAL FRAMEWORK

4.1. Policy strategy and medium-term objectives

Fiscal policy in the medium term 2020-2022 will be 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 considerable fiscal adjustment over the past few years. The overall fiscal balance has improved by about 3.5 p.p. of GDP from 2014 to 2019, 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 2019, driven by tax policy measures and improved tax administration. The reform against informality also helped to increase revenue collection that remains an ongoing priority action. 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 consolidating fiscal policy aims to keep the down warding trajectory of public debt as a ratio to GDP started since 2016. Public debt is expected to fall at about 65.4% of GDP in 2020; 62.3% of GDP in 2021 and 62.0% in 2022, which comprises a significant reduction from the peak of 72.7% in 2015. In terms of public debt net of liquid assets of government (cash deposit of government held in the central bank), the reduction will be from 64.5% expected in the end of 2019 to 60.5% in 2022, which comprises a cumulative reduction of about 4 p.p. in three years or a cumulative reduction of about 11.4 p.p. since 2015. To achieve this reduction of public debt, the baseline fiscal scenario targets a fiscal deficit at the level of 2.2% of GDP in 2020, a level of 2.0% of GDP in 2021, and aims at further reduction to 1.7% by 2022. At the same time, it is constantly targeting a positive primary balance in years 2020-2022, respectively 0.1% of GDP in 2020; 0.5% in 2021; and 0.8 percent in 2022. Also, the current balance, defined here as the difference between public investment and annual deficit, is targeted at high levels. The current balance in the medium term is targeted at the level of 3.5% of GDP in 2020, 2.8% in 2021 and 3.1% in 2022.

At the same time, this fiscal framework accommodates budgetary policies which support economic growth. Central government public investments are estimated at an average of about 4.7% of GDP for each year (or about 5.5% of GDP if the local government investments are considered). These levels are considered optimal for supporting high and sustained economic growth. The continuation of 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.

FISCAL PRINCIPLES AND RULES

In full compliance with the obligations deriving from the Organic Budget Law (OBL) No. 57/2016, the fiscal framework 2021-2023 materializes the following fiscal principles and rules:

1. *In each annual budget law, original or revised, and in the medium-term budget planning, 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 2021-2023 targets an annual a level of total public debt in percentage of GDP 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 2021-2023 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 in October 2019.

	(in billion ALL)					
	2017	2018	2019 <i>Fore.</i>	2020 <i>Fore.</i>	2021 <i>Fore.</i>	2022 <i>Fore.</i>
IMF - World Economic Outlook	1,551.3	1,626.2	1,705.4	1,809.0	1,926.0	2,062.7
MFE	1,551.3	1,630.9	1,688.9	1,777.2	1,879.8	1,990.2
Difference IMF - MFE (difference of the forecasted values should not be less than zero)	0.0	-4.7	16.5	31.8	46.1	72.5

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 2021-2023 framework includes each year in a separate item, labelled "Contingency on interest rate fluctuations, etc. "a contingency of at least 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 2021-2023 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 - "golden rule" - the OBL, the annual deficit targets in the 2021-2023 framework are lower than the planned capital expenditure. Consequently, the targeted current balance is positive at an average of 3 percent of GDP in each programmed year.

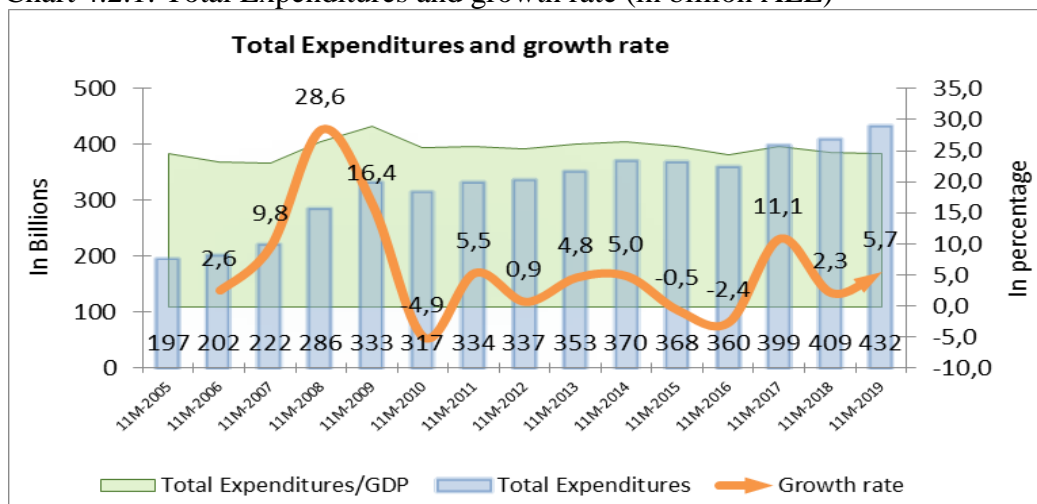
1. Link to access the WEO report - <https://www.imf.org/en/Publications/WEO/Issues/2019/10/01/world-economic-outlook-october-2019>

4.2. Budget implementation in 2019

Eleven month performance of main budget spending indicators

General Public Expenditures, during the eleventh month of 2019, reached the level of about ALL 431.95 billion, with a realization of 94.6 percent of the period's plan. Compared to the same period of 2018, this item resulted 5.7 percent higher or about ALL 23.3 billion more. *In annual terms*, total expenditures for the eleventh month period of 2019, were realized at 83.1 percent of the annual plan according to the Initial Budget and Normative Act no.2, date 2.10.2019 (AN no. 2).

Chart 4.2.1: Total Expenditures and growth rate (in billion ALL)

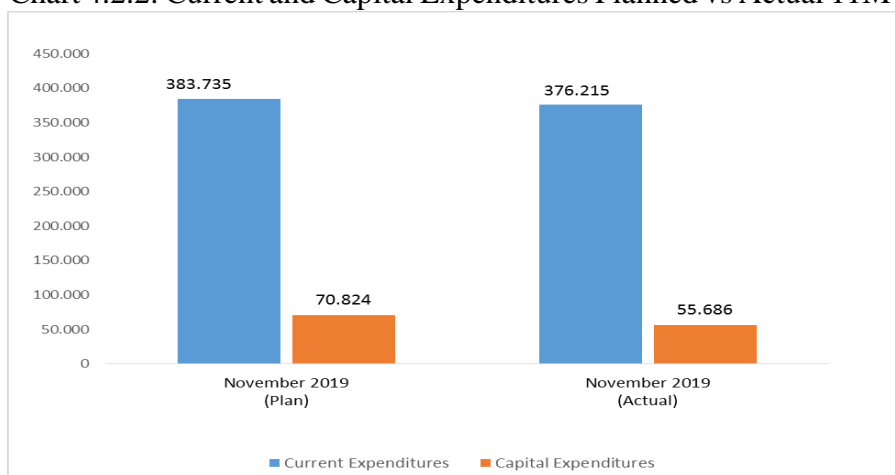


Source: Ministry of Finance and Economy

Current and capital expenditures have marked a realization respectively at 98 percent and 78.6 percent of the period's plan. Meanwhile, *in annual terms* they were realized respectively:

- Current expenditures 88.3 percent of the annual plan according to the Initial Budget and 87.8 percent according to AN no. 2,
- Capital expenditures 61.5 percent of the annual plan according to the Initial Budget and 63.6 percent according to AN no. 2.

Chart 4.2.2: Current and Capital Expenditures Planned vs Actual 11M (in billion ALL)



Source: Ministry of Finance and Economy

Table 4.2.1: Consolidated fiscal indicators during the 11-month of 2019 (in million ALL)

Items	November 2019		Difference		Year 2019			
	Plan	Actual	Actual-Plan	in % over Plan	Annual Plan Initial Budget	Annual Plan AN no.2	% of annual realization Initial Budget	% of annual realization AN no.2
Total Revenues	435,529	421,129	-14,400	96.7%	486,676	486,676	86.5%	86.5%
Total Expenditures	456,832	431,954	-24,878	94.6%	519,576	519,577	83.1%	83.1%
<i>Current Expenditures</i>	383,735	376,215	-7,520	98.0%	426,068	428,719	88.3%	87.8%
<i>Capital Expenditures</i>	70,824	55,686	-15,138	78.6%	90,608	87,508	61.5%	63.6%
Deficit/Surplus	-21,303	-10,825	-10,477	50.8%	-32,900	-32,901	32.9%	32.9%

Source: Ministry of Finance and Economy

Table 4.2.2: Consolidated fiscal indicators during the 11-month of 2018 and 2019 (in million ALL)

Items	Actual November 2018	November 2019		Difference Actual 2019 Plan 2019	in % over Plan 2019	Difference Actual 2019 Actual 2018	in % over Actual 2018
		Plan	Actual				
Total Revenues	407,429	435,529	421,129	-14,400	96.7%	13,700	103.4%
Total Expenditures	408,700	456,832	431,954	-24,878	94.6%	23,254	105.7%
<i>Current Expenditures</i>	351,008	383,735	376,215	-7,520	98.0%	25,207	107.2%
<i>Capital Expenditures</i>	57,512	70,824	55,686	-15,138	78.6%	-1,825	96.8%
Deficit/Surplus	-1,271	-21,303	-10,825	-10,477	50.8%	9,554	851.6%

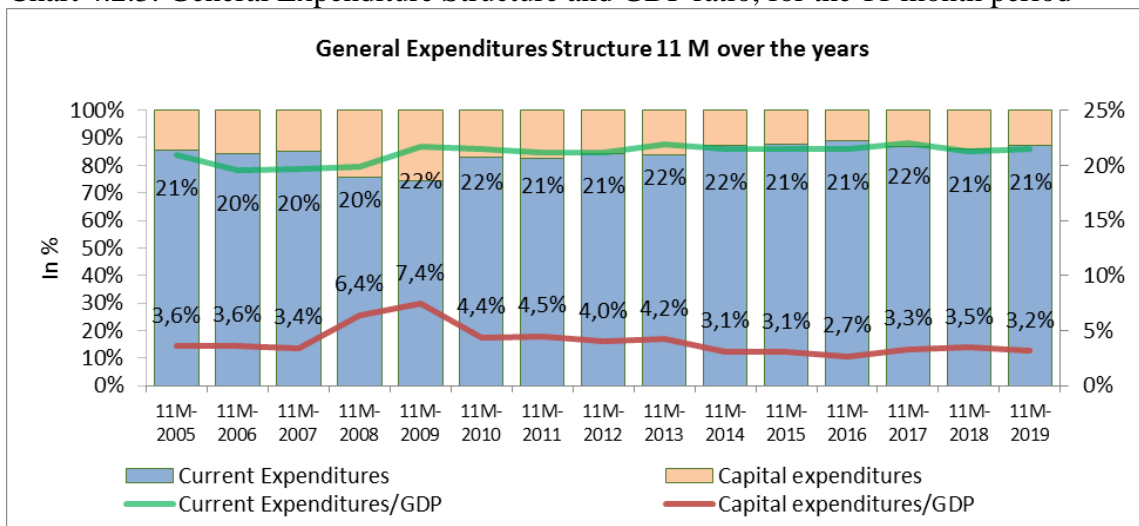
Source: Ministry of Finance and Economy

Current expenditures for the eleventh month of 2019 reached the level of about ALL 376.2 billion. Compared to the same period of the previous year, this item resulted 7.2 percent higher or about ALL 25.2 billion more. Current expenditures for 11th month period of 2019 represented 87.1 percent of the total expenditures. Compared to GDP, current expenditure represented 21 percent of the Gross Domestic Product. While, for the eleventh month period over the years, the average level of the current expenditures ratio versus GDP is 21 percent.

Capital expenditures for the eleventh month of 2019 represents a realization of about ALL 55.69 billion. Compared to the same period of 2018, this item results 3.2 percent lower or ALL 1.83 billion less. Capital expenditures for eleventh month of 2019 represented 12.9 percent of the total expenditures. Compared to GDP, capital expenditures represented 3.2 percent of the Gross Domestic Product. While, for the eleventh month period over the years, the average level of the capital expenditures ratio versus GDP is 4 percent.

The deficit level in the eleventh month period of 2019 resulted to about ALL 10.83 billion, or about ALL 10.48 billion less than the period's plan. Compared to the same period of 2018 where the level of deficit amounted to about ALL 1.27 billion, for the eleventh month of 2019 the level of deficit increased about ALL 9.55 billion more in nominal terms.

Chart 4.2.3: General Expenditure Structure and GDP ratio, for the 11 month period

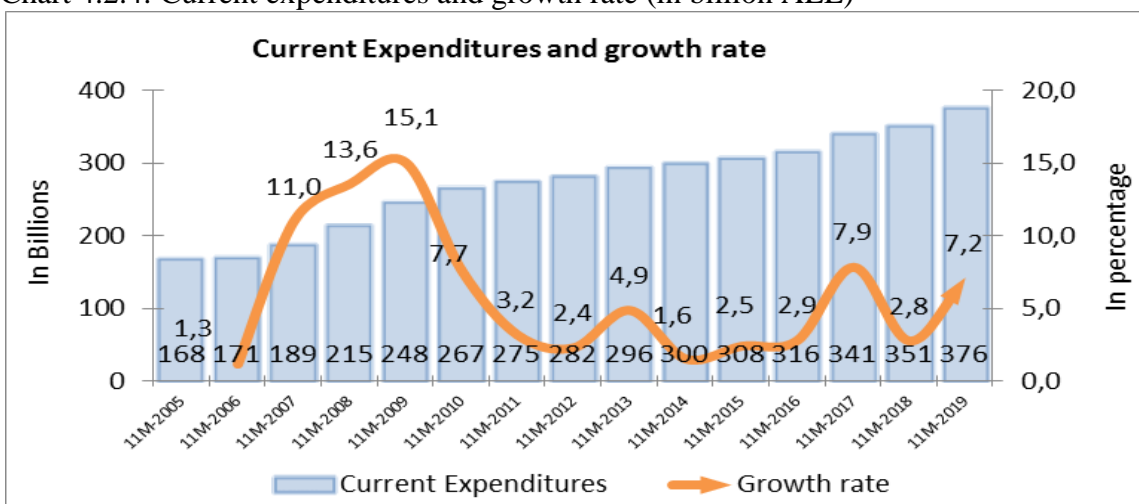


Source: Ministry of Finance and Economy

Current expenditures, in relation to the eleventh month plan of this year, represented a realization of 98 percent, resulting in about ALL 376.2 billion. The main items affecting their level of implementation to the eleventh month plan, were respectively:

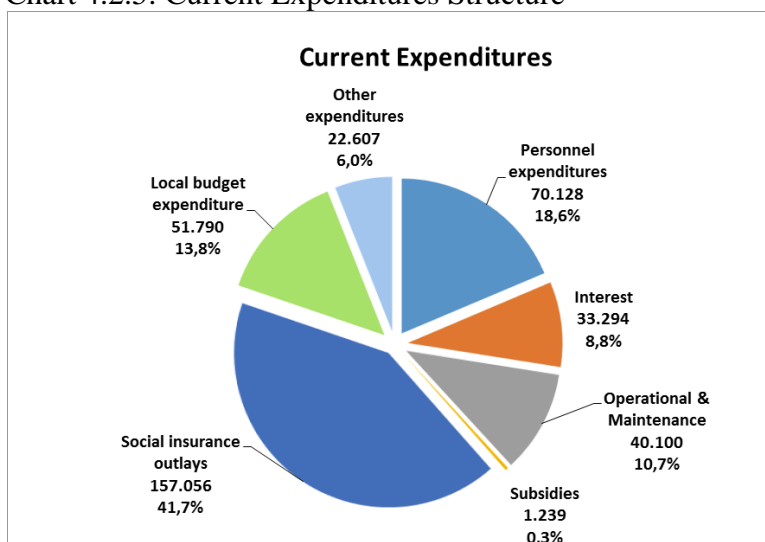
- Subsidy expenditures reached the level of about ALL 1.24 billion or 104.8 percent of the period's plan.
- Other social expenditures reached the level of ALL 22.6 billion or 101.9 percent of the period's plan.
- Local Government expenditures reached the level of ALL 51.8 billion or 100.4 percent of the period's plan.

Chart 4.2.4: Current expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy

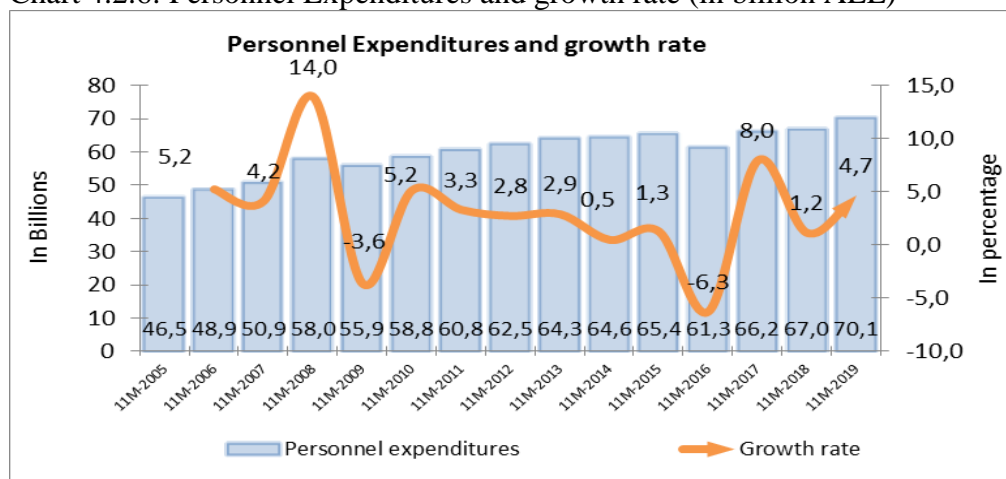
Chart 4.2.5: Current Expenditures Structure



Source: Ministry of Finance and Economy

Personnel expenditures, during November 2019, represented 18.6 percent of the total current expenditures. Their actual level of about ALL 70.1 billion, realizes the forecasted level for this item in the eleventh month period, at 97.4 percent. Compared to the same period of 2018, this item is 4.7 percent higher or about ALL 3.1 billion more.

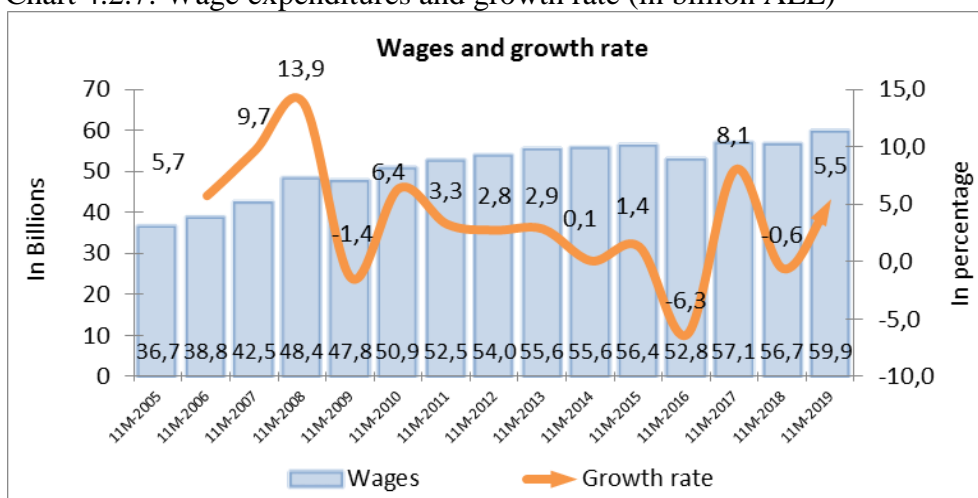
Chart 4.2.6: Personnel Expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy

Wages expenditures at the end of November 2019, were realized at about ALL 59.9 billion, being 5.5 percent higher than the same period in 2018, or ALL 3.1 billion more. Consequently, the expenditures for social security were realized at 3.7 percent higher than the previous year or ALL 344 million more. The actual realization of these items together is about 98.4 percent compared to the period's plan or 91.2 percent of the annual plan according to the Initial Budget according to AN no. 2.

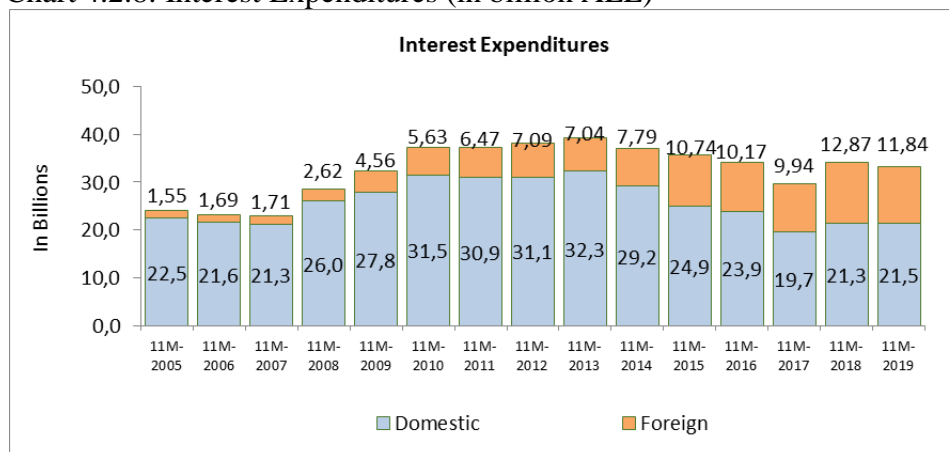
Chart 4.2.7: Wage expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy

Interest expenditures, during the eleventh month period of 2019 represented 8.85 percent of current expenditures. Their actual level of about ALL 33.3 billion, resulted at 98.7 percent of the period's plan. Compared to the annual plan, at the eleventh month level, these expenditures were realized at 79.8 percent of the annual plan according to the Initial Budget and 83 percent according to AN no. 2. Meanwhile, compared to the same period of 2018, this item resulted 2.7 percent lower, or ALL 920 million less.

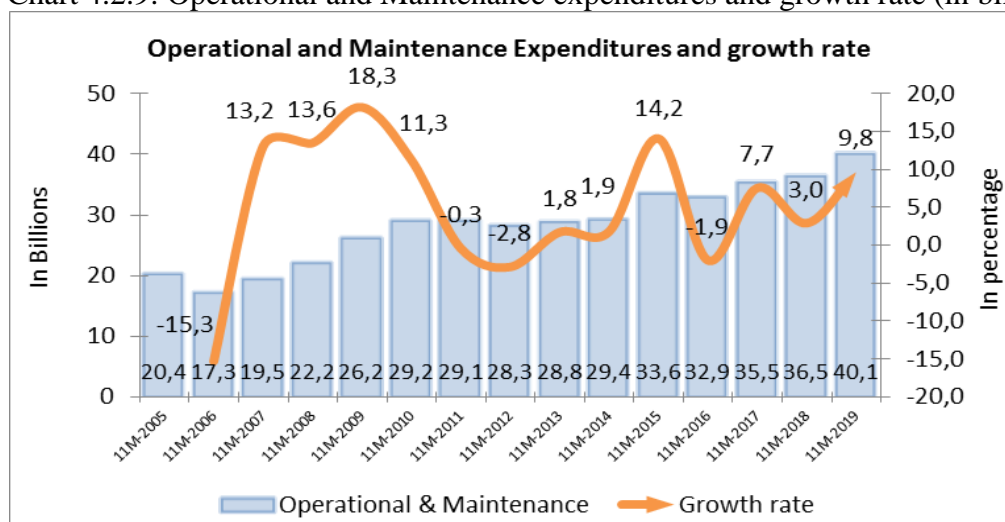
Chart 4.2.8: Interest Expenditures (in billion ALL)



Source: Ministry of Finance and Economy

Operational and Maintenance expenditures, during the eleventh month period of 2019, registered an actual level of about ALL 40.1 billion, or 95.9 percent of the period's plan. *In annual terms*, operational and maintenance expenditures were realized at 85.6 percent of the annual plan according to the Initial Budget and 83.5 percent according to AN no. 2. Compared to the same period of 2018, this item resulted 9.8 percent higher, or about ALL 3.57 billion more.

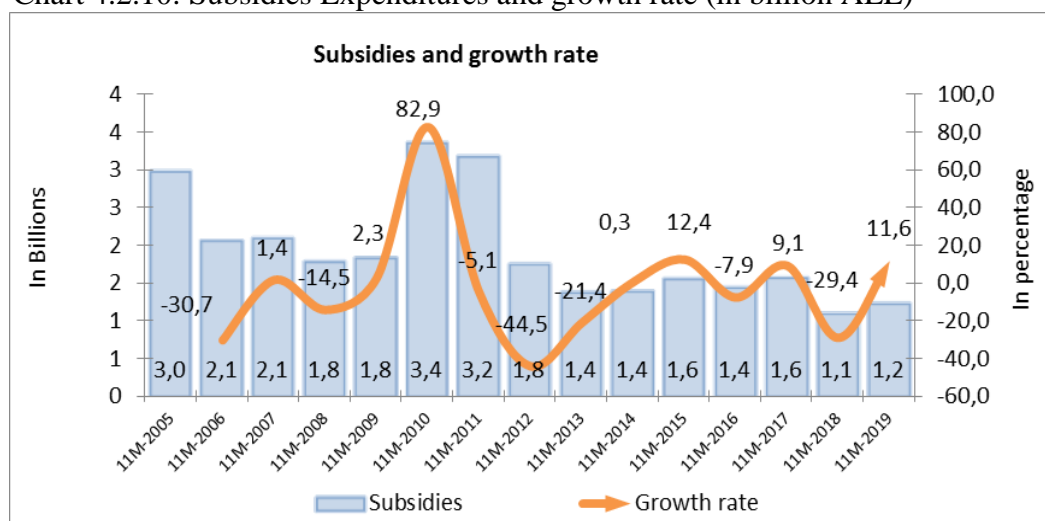
Chart 4.2.9: Operational and Maintenance expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy

Subsidies Expenditures, for the eleventh month period of 2019, amounted at about ALL 1.24 billion, with a realization of 104.8 percent of the period's plan or ALL 57 million more in nominal terms. In relation to the annual plan, this item is realized 83.1 percent of the annual plan according to the Initial Budget and 86.6 percent according to AN no. 2, while for the same period of 2018 this item results 11.6 percent higher or ALL 129 million more.

Chart 4.2.10: Subsidies Expenditures and growth rate (in billion ALL)



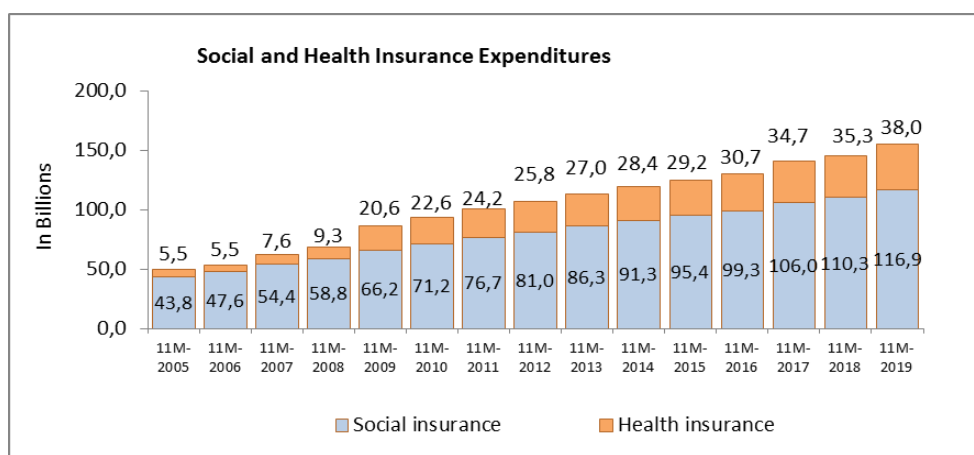
Source: Ministry of Finance and Economy

Expenditures for Special Funds for the eleventh month period of 2019 resulted about ALL 157.1 billion, with a realization of 97.4 percent of the period's plan. Respectively:

- Social insurance expenditures were realized about ALL 116.9 billion,
- Health insurance expenditures were realized about ALL 38 billion and
- Expenditures for owners' compensation at about ALL 2.1 billion.

Compared to the same period of 2018, social insurance expenditures resulted ALL 6.65 billion less, health insurance expenditures ALL 2.76 billion more and expenditures for owner's compensation at about ALL 203 million less.

Chart 4.2.11: Social and Health insurance expenditures (in billion ALL)



Source: Ministry of Finance and Economy

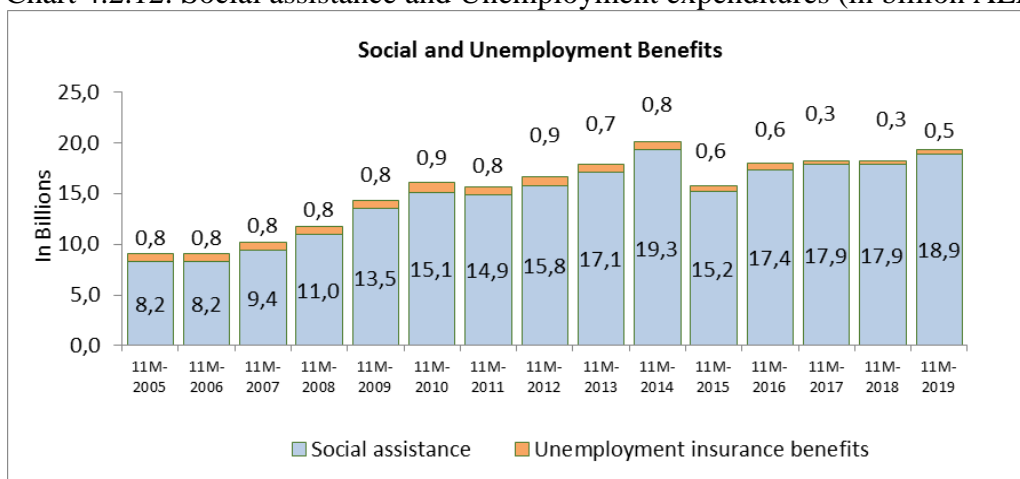
Unemployment Expenditures for the eleventh month period of 2019 registered a level of 96 percent of the period's plan or 92.6 percent of the annual plan according to the Initial Budget and 85.7 percent of AN no.2. Compared to the same period of 2018, expenditures for this item resulted in an increase of 53 percent or ALL 160 million more in nominal terms.

Expenditures for Social Assistance and Disability Payment (PAK) for the eleventh month of 2019 were realized at about ALL 18.9 billion, resulting 100 percent of the period's plan. In relation to the annual plan they are realized at 92 percent of the annual plan according to the Initial Budget and 90.7 percent of AN no.2. Compared to the same period of 2018, expenditures for this item resulted in an increase of 5.5 percent or ALL 989 million more, in nominal terms.

Expenditures for compensation for ex-political prisoners in the eleventh month period of 2019 were realized at ALL 1.15 billion, resulting 104.5 percent of the period's plan. In relation to the annual plan they are realized at 115.4 percent of the annual plan according to the Initial Budget and 96.2 percent of AN no.2. Compared to the same period of 2018, expenditures for this item resulted in an increase of ALL 477 million more in nominal terms.

Expenditures for the birth bonus in the eleventh month period of 2019 were realized at ALL 2.1 billion, resulting 121.4 percent of the period's plan or ALL 374 million more in nominal terms. In relation to the annual plan, they are realized at 106.2 percent of the annual plan according to the Initial Budget and 118 percent of AN no.2.

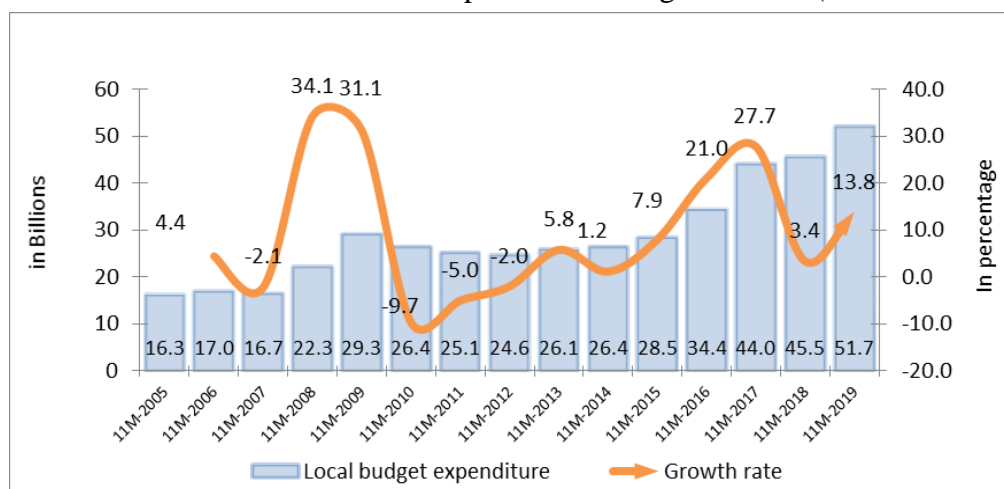
Chart 4.2.12: Social assistance and Unemployment expenditures (in billion ALL)



Source: Ministry of Finance and Economy

Expenditures for Local Government, during the eleventh month period of 2019 reached the level of about ALL 51.8 billion. These expenditures constituted 13.8 percent of current expenditures. Against the same period of 2018, this level resulted 13.8 percent higher or about ALL 6.3 billion more.

Chart 4.2.13: Local Government expenditures and growth rate (in billion ALL)



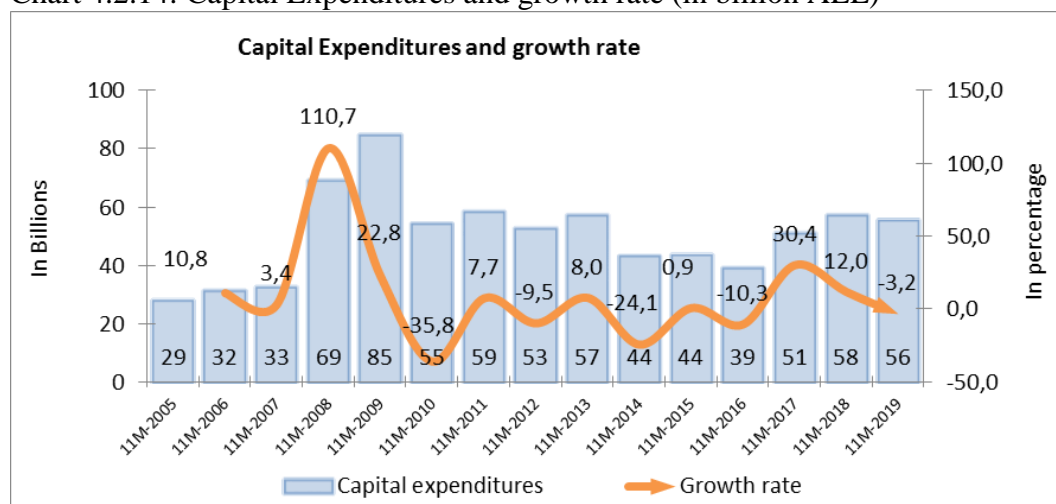
Source: Ministry of Finance and Economy

Capital expenditures, for the eleventh month of 2019, were realized at about ALL 55.69 billion or 78.6 percent in relation to the funds planned for this period. Respectively, domestic investment projects were realized at about ALL 37.1 billion resulting 82 percent of the period's plan or ALL 8.16 billion less, while those with foreign financing amounted to about ALL 17.9 billion, resulting 72.6 percent of the period's plan or about ALL 6.76 billion less in nominal terms.

Compared to the annual plan, for the eleventh month of 2019, has been ascertained a total realization of public investments of 61.5 percent of the annual plan according to the Initial Budget and 63.6 percent according to AN no.2, respectively:

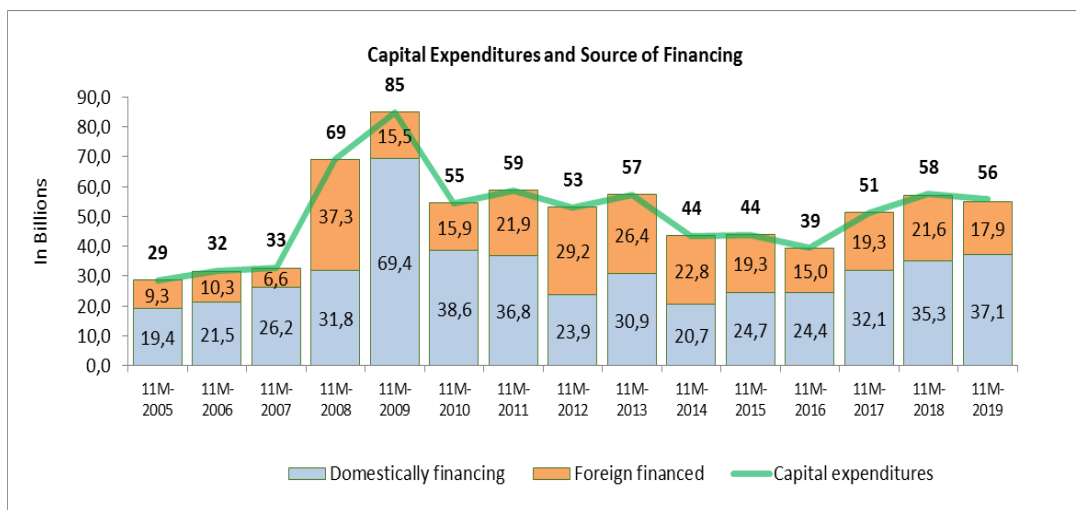
- Domestic financing is realized 65.1 percent of the annual plan according to the Initial Budget and 67.6 percent according to AN no.2,
- Foreign financing is realized 54.9 percent of the annual plan according to the Initial Budget and 56.6 percent according to AN no.2.

Chart 4.2.14: Capital Expenditures and growth rate (in billion ALL)



Source: Ministry of Finance and Economy

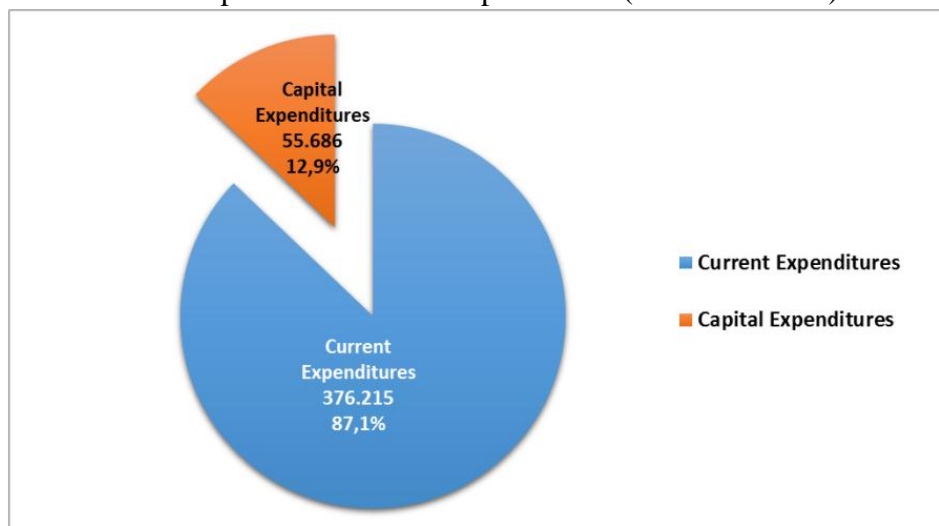
Chart 4.2.15: Capital Expenditures and Source of Financing (in billion ALL)



Source: Ministry of Finance and Economy

The chart below shows the actual allocation of public expenditures for the eleventh month period of 2019. Current expenditures constitute the main part of total actual expenditures or 87.1 percent of them. Meanwhile, capital expenditures constitute the other 12.9 percent.

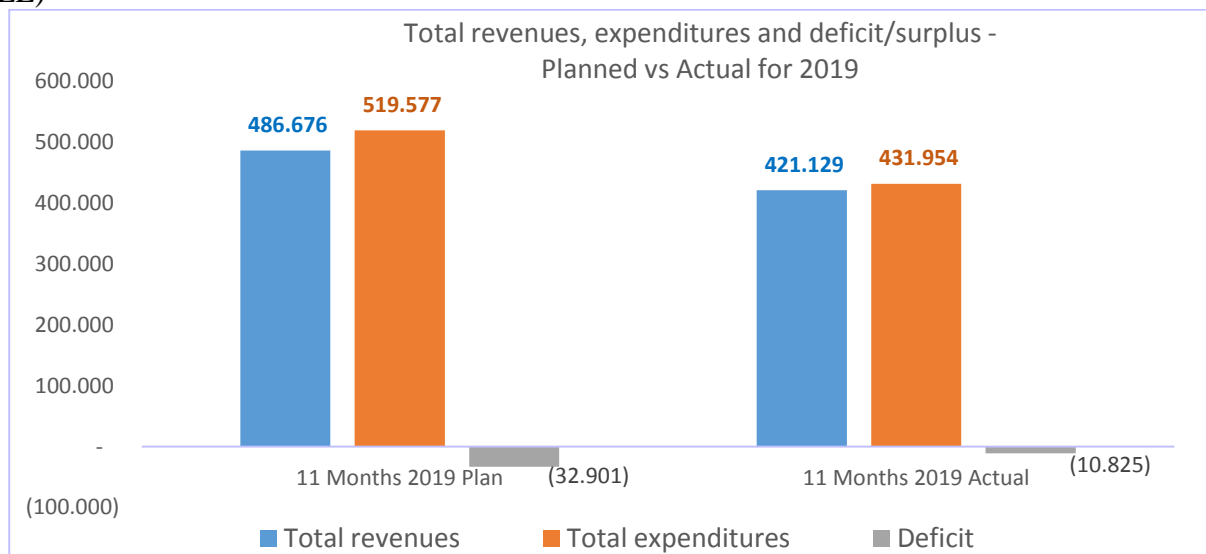
Chart 4.2.16: Capital and Current Expenditures (in million ALL)



Source: Ministry of Finance and Economy

As evidenced by the table of consolidated fiscal indicators, the realization of total expenditures for the eleventh month period of year 2019 was about ALL 431.95 billion or 94.6 percent against the period's plan. This situation is associated with a budget deficit of about ALL 10.83 billion. The chart below shows the trends of the main budget indicators.

Chart 4.2.17: Total revenues, expenditures and deficit - Planned vs Actual 11M 2019 (in million ALL)



Source: Ministry of Finance and Economy

Total revenues collected for the period January-November 2019 was about ALL 421 billion, or 96.7 percent against the period's plan, marking an increase of 3.3 percent or ALL 13.6 billion more than the previous year figures. Revenues from grants reached ALL 5 billion, or 32 percent of the period's plan and ALL 0.75 billion less than the same period of the previous year.

Revenues collected from General Department of Customs (GDC) and General Department of Tax (GDT), including social contributions collected from GDT were ALL 368.9 billion, with a realisation of 97.5 percent of the plan and 3 percent or ALL 10.5 billion more than the same period of the last year. Compared with the last year, these revenues marked a significant improvement in revenue performance, as a result of: (i) intensive efforts to reduce the informal economy (ii) better administration in GDC and GDT during year 2019; and (iii) increase of the revenues coming from dividend through the reduced rate.

Table 4.2.3 Total Revenues from Tax & Custom Revenues in ALL million

Tax by type	Actual 11 Months	Plan 11 Months	Difference Actual-Plan	
			Value	on %
VAT	124,689	136,307	(11,618)	-8.5%
Corporate Income Tax	32,744	29,587	3,157	10.7%
Excise	42,462	44,195	(1,733)	-3.9%
Personal Income Tax	43,328	37,792	5,536	14.6%
National taxes	33,193	37,597	(4,404)	-11.7%
Customs Duty	5,888	6,703	(815)	-12.2%
Total tax revenues	282,304	292,181	(9,877)	-3.4%
Contributions collected from GDT	86,630	86,369	261	0.3%
Grand total (GDT+GDC+Contributions)	368,934	378,550	(9,616)	-2.5%

Source: Ministry of Finance and Economy

The main factors that have affected the eleven-month performance versus the plan are:

- The impact of a falling (devaluation) exchange rate USD and EUR against the domestic currency, which had significant adverse effects on the reduction of VAT revenue from imports for all

categories of goods.

- Decline in the National Taxes because of the decline of the international prices of goods such as Crude Oil and other Metals and partly because of the very optimistic forecasting of the Plan for 2019.

Revenues from General Department of Customs reached ALL 148 billion, with a realisation of 95.5 percent of the plan. Compared to the same period of 2018, there is a surplus for this period of 1.6 percent, or ALL 2.3 billion.

Table 4.2.4: Revenues collected by Custom Administration in ALL million

Tax by type	Actual 11 Months	Plan 11 Months	Difference Actual-Plan	
			Value	on %
VAT on Import	97,491	101,645	(4,154)	-4.1%
Excise	42,462	44,195	(1,733)	-3.9%
Royalty	2,291	2,582	(291)	-11.3%
Customs Duty	5,888	6,703	(815)	-12.2%
Grand total GDC	148,132	155,125	(6,993)	-4.5%

Source: Ministry of Finance and Economy

Revenues from Value Added Tax on imports were ALL 97.5 billion, with a realisation of 95.9 percent of the plan and increased by ALL 0.6 billion (0.6 percent) in comparison with the same period of the last year. Value Added Tax (VAT) performance on imports was affected by several factors, such as:

- The depreciation of the EUR currency against the domestic currency 4.2 percent, had significant adverse effects on the reduction of VAT revenue from imports for all categories of goods.
- Decline in import of electricity as a result of domestic production growth and discipline of the consumer about their electricity consumption.
- Decrease in revenues from the import of TAP Project due to the end of the period of the project.

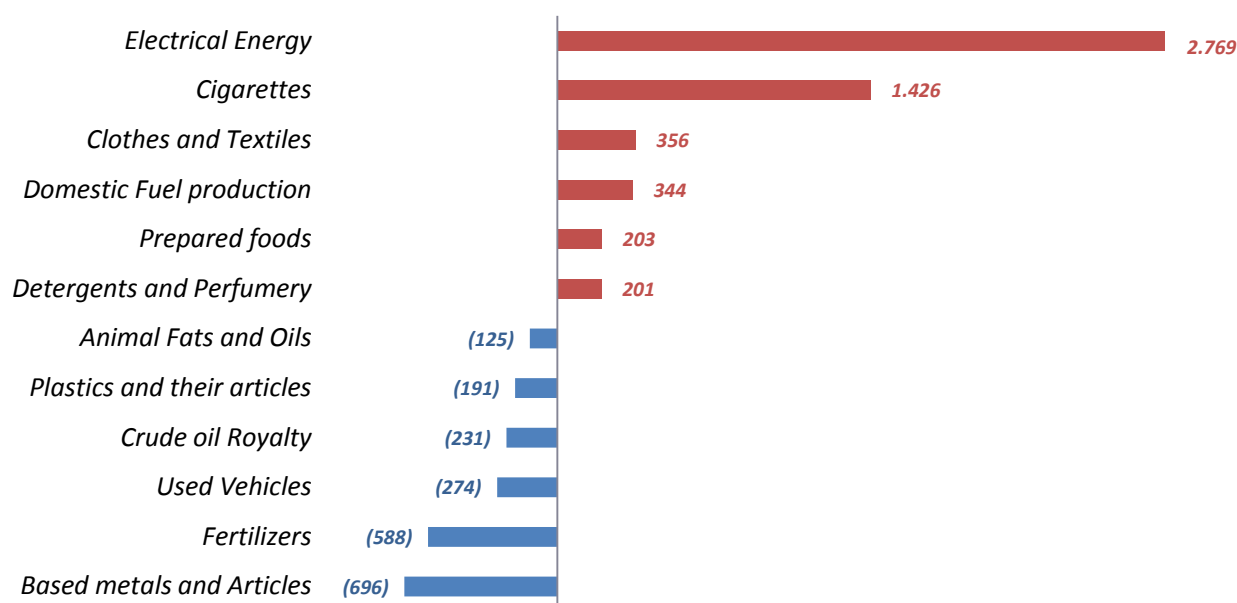
Revenues from excise tax were ALL 42.5 billion, with a realisation of 96.1 percent of the plan. The excise performance for the January-November period was effected by several factors:

- During this period the excise reimbursement was 1.12 times more than the 11 months of 2018.
- Positive performance as a result of quantity increase was marked by: the import and domestic production of fuel +2% or +5000 tons; the import and domestic production of beer by + 6.2 percent; import of smoked tobacco by +4.2 percent, as well as increase in the declaration of domestic tobacco production, from 20 tons to 27 tons declared in the period January-November 2018.

Revenues performance from Mineral Royalty during January–November 2019 was ALL 2.3 billion with a realisation of 88.7 percent of the plan, marking a decrease of 7.7 percent or ALL 191 million ALL less than the same period of the last year. Compared with the last year, royalty revenues from crude oil have a decline as a result of decreased export volume due to the domestic oil refining and also because of the decrease of the international prices by 6.6 percent. Royalty revenues for crude oil decreased by ALL 141.3 million as a result of decreased exported volume by about 8 thousand tons (with effect -28.7 ALL million) and decreased by ALL 112.6 million as a result of the decrease of the crude oil price in international markets. Unit rent decreased from ALL 3.61 per kg to ALL 3.4 per kg compared to the previous year. Meanwhile, the exported minerals fell by ALL 87 million due to the decline in the price of minerals in international markets, compared to the same period last year.

Revenues from customs duty were ALL 5.9 billion ALL, with a realisation of 87.8 percent of the plan and 4.5 percent or ALL 252 million more than the same period of the previous year.

Chart 4.2.18: Main contributors to Custom Revenues (January – November 2019/2018)



Source: Ministry of Finance and Economy

Revenues collected from General Department of Taxation (including social contributions) for the period January-November 2019 were ALL 220.8 billion, with a realisation of 98.8% of the plan and 3.9 percent or ALL 8.3 billion more than the same period of the previous year. The following table shows detailed data regarding the tax performance:

Table 4.2.5: Tax Administration revenues performance in ALL million

Tax by type	Actual 11 Months	Plan 11 Months	Difference Actual-Plan	
			Value	on %
Domestic Net VAT	27,198	34,662	(7,464)	-21.5%
Gross VAT	44,374	52,162	(7,788)	-14.9%
Reimbursement	17,176	17,500	(324)	-1.9%
Cooperate Income Tax	32,744	29,587	3,157	10.7%
Personal Income Tax	43,328	37,792	5,536	14.6%
National Taxes	30,902	35,015	(4,113)	-11.7%
Total tax revenues	134,172	137,056	(2,884)	-2.1%
Contributions collected by GDT	86,630	86,369	261	0.3%
Grant total GDT revenues	220,802	223,425	(2,623)	-1.2%

Source: Ministry of Finance and Economy

Revenues from domestic Net VAT were ALL 27.2 billion, with a realisation of 78.6 percent against the plan and ALL 6.7 billion (19.8%) less than 11-months of 2018. In the period January-November 2019, the amount reimbursed was ALL 17.2 billion, about 35.4 percent or ALL 4.5 billion more than the 11-month of 2018. The negative performance in domestic VAT revenues resulted from the decrease of domestic electricity production and the impact of great growth of the reimbursement.

Chart 4.2.19: VAT performance during the years (11-months)/million ALL

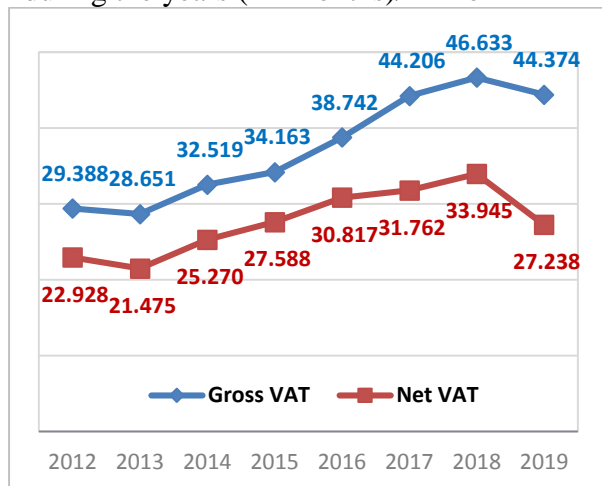
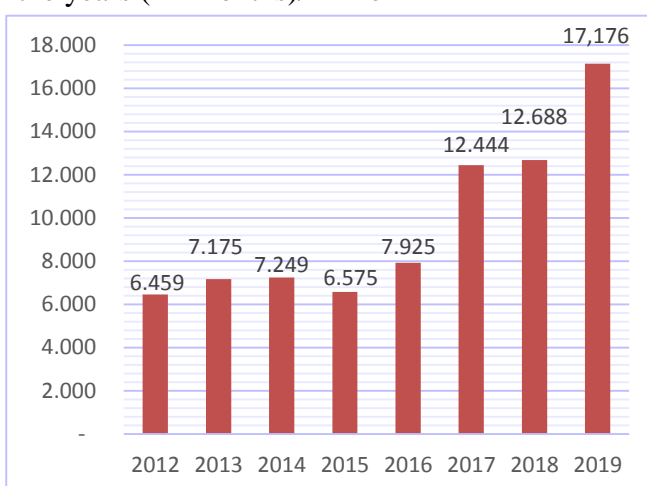


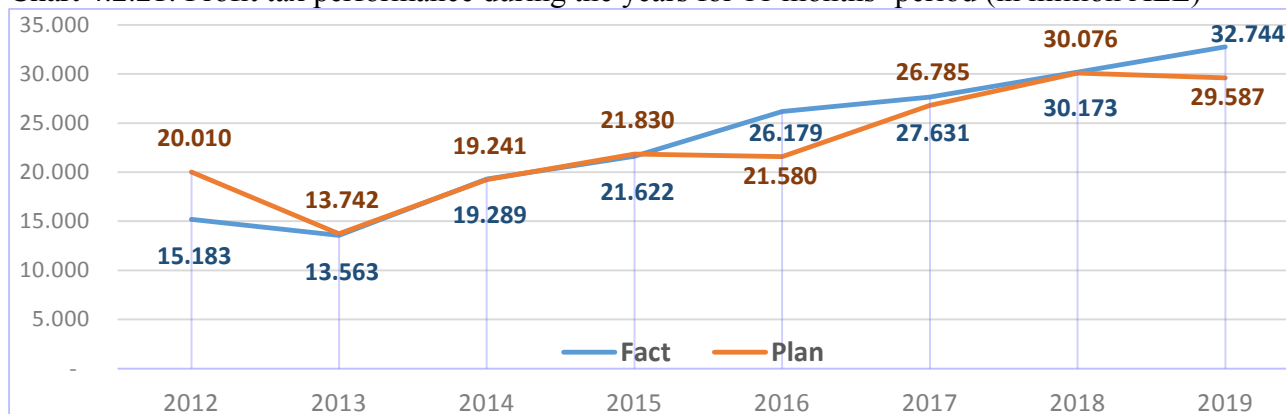
Figure 4.2.20: Vat refunds during the years (11-months)/million ALL



Source: Ministry of Finance and Economy

Revenues from Profit Tax were realized at the amount of ALL 32.7 billion with a realization of 110.7 percent of the plan and they marked an increase of 8.5 percent or ALL 2.6 billion more than the same period of the last year. This positive performance of the corporate income tax mostly resulted from the positive situation of the firms operating in the energetic sector that allowed them to pay the profit tax. Also the increase of the taxable profit of 2018 reflected the growth and improved the performance of the corporate income tax.

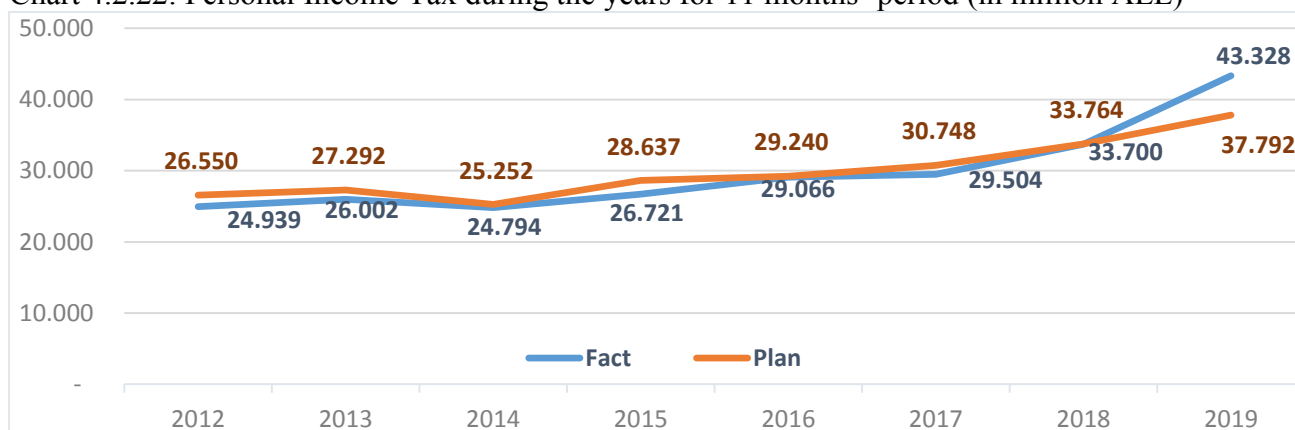
Chart 4.2.21: Profit tax performance during the years for 11 months' period (in million ALL)



Source: Ministry of Finance and Economy

Revenues from Personal Income Tax were realized at ALL 43.3 billion, with a realisation of 114.6 percent of the plan and increasing by 28.6 percent or ALL 9.6 billion compared to the 11-month period of 2018. Revenues from the employees of the public and private sector have increased, due to the increased number of employees and salary level. There is also a big increase in dividend tax due to the policy undertaken from the government to reduce the tax rate from 15% to 8%.

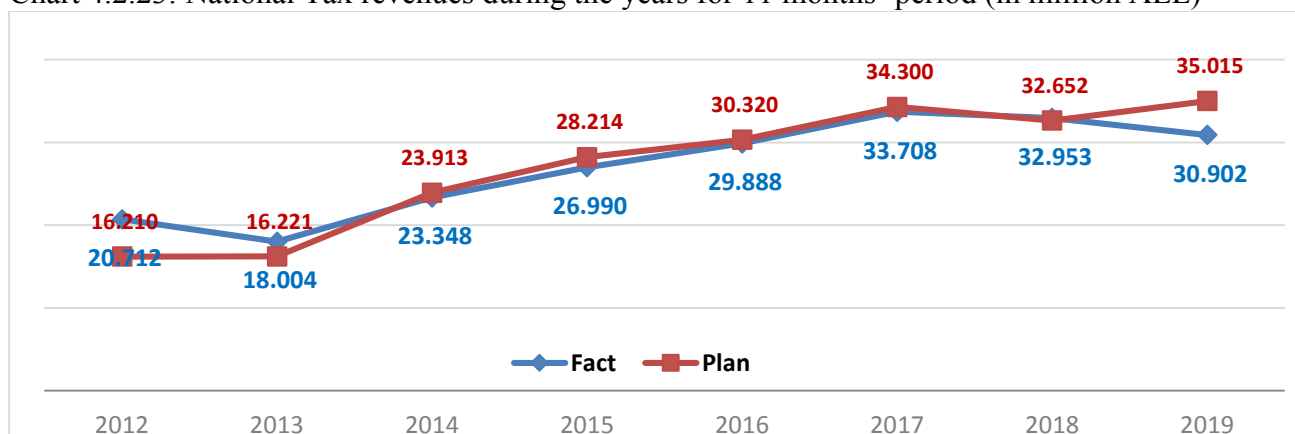
Chart 4.2.22: Personal Income Tax during the years for 11 months' period (in million ALL)



Source: Ministry of Finance and Economy

Revenues from national taxes, for the January-November period, were ALL 30.9 billion, with a realization of 88.3 percent of the plan.

Chart 4.2.23: National Tax revenues during the years for 11 months' period (in million ALL)



Source: Ministry of Finance and Economy

Revenues from contributions collected by GDT reached the amount of ALL 86.6 billion, marking an increase of 5.9 percent or ALL 4.8 billion compared to the 11 months of 2018 and 0.3 percent or ALL 261 million more than the plan. The high performance and solid growth derived mainly due to positive economic situation and the increase of the number of employees. On the other hand, the anti-informal action has given noticeable effects to the formalization of the labour market.

4.3. Medium-term budgetary outlook

Tax revenue forecast for 2020, has considered all relevant factors affecting the budget, including the effect of economic growth, prudent fiscal policies and compliance. New fiscal policies and the effects of the fight against informality, united with anti-circumvention measures aimed to increase the level of taxpayers' voluntary reconciliation with the law.

Revenue programming for 2020 supports the goals of the Ministry of Finance and Economy for further fiscal consolidation, reduction of budget deficit and public debt. This program is based on improving fiscal administration and minimizing informality in the economy, thus supporting sustainable economic growth, and increasing output and exports.

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:

- Macroeconomic Forecast.
- Model based on the analysis of the 60-major imported product groups and on the Time Series Analysis.
- 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").

Macroeconomic factors regarding the 2020 forecast are combined with key indicators that affect specific taxes. Quantities and prices of major imported goods and domestic production (which covers 90% of the total revenues) are analysed and assessed 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 quantities on import and production;
- Increased excise revenues for fuels, cigarettes, drinks etc., as a result of the expected increase in their quantity, in line with consumption.
- Increased revenues from Corporate Income Tax, reflecting the growth of declaration and the turnover of the economic operators.
- Crude oil price decrease by about 5.4% compared to 2019, according to forecasts in the EIA-“U.S Energy Information Administration”;
- Increase in revenues from VAT on import and domestic VAT, connected with the programming of funds needed for timely reimbursement of taxpayers;
- Programming the funds needed for VAT Reimbursement, with the aim of reducing the stock in 2020 by 67% compared to the end of 2019.

Total Revenues collected from GDC and GDT (including social security) contributions are estimated to be ALL 437.15 billion, or ALL 29 billion (7.2%) more than the preelementary 2019. Revenues from GDC and GDT for 2020 are estimated to be ALL 334.12 billion, or ALL 24.5 billion (7.9%) more than the preliminary 2019, while revenues from social contributions are estimated to be ALL 103 billion or ALL 4.7 billion (4.8%) more than the fiscal year 2019.

Table 4.3.1: Total Revenues from Tax & Custom Administration

Tax by type	2017	2018	2019 Preliminary	2020 Plan	in ALL millions	
					Difference 2020 - 2019 value	in %
1 Total Net VAT	139,541	143,464	137,970	151,621	13,651	9.9%
2 Corporate Income Tax	31,645	34,461	36,483	38,000	1,517	4.2%
3 Excise	45,105	44,987	46,725	50,500	3,775	8.1%
4 Personal Income Tax	32,102	36,517	46,165	47,500	1,335	2.9%
5 National Tax	38,502	38,673	35,765	39,500	3,735	10.4%
6 Customs Duty	6,492	6,217	6,482	7,000	518	8.0%
Total GDT+GDC	293,387	304,319	309,590	334,121	24,531	7.9%
7 Contributions (collected by GDT)	85,601	91,850	98,300	103,025	4,725	4.8%
GRAND TOTAL GDT+GDC	378,988	396,169	407,890	437,146	29,256	7.2%

Source: Ministry of Finance and Economy

Customs revenues are projected based on the analysis of the historical trend of 60 key product groups over a four-year period. This forecast is corrected by the effects of other external factors in each tax. The same procedure has been followed for tax revenues, based on the statistical model of expected revenue projection as well as the exogenous factors influencing each tax.

External factors to take into consideration which influence the revenue growth for 2020 are:

Macroeconomic framework

Nominal growth of GDP is applied by analysing 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

No major fiscal changes are projected for 2020. Priority will be to implement and measure the effects of the fiscal policies adopted in the last 2-3 years in order to consolidate the tax system. It is important to emphasize that we need to consolidate fiscal policy sustainability by stimulating simplicity, transparency, reducing compliance costs and avoiding exemptions or favorable tariffs.

The main change concerns the "Law "On Invoice and Circulation Monitoring System", which is expected to affect the transparency and control of commercial transactions, from which tax liabilities are generated. Real-time realization of business-to-consumer and subsequent business-to-business transactions through the use of electronic invoices aims to increase domestic VAT parameters from 8.8% of GDP up to 9.1% of it within a 2-3-year period. .

Revenue forecast for each tax in 2020

VAT revenues are estimated to be realized at ALL 151.6 billion, ALL 13.6 billion more than the preliminary 2019 (or 8.1%). The main source of additional revenue from VAT for 2020 is expected to be as follows:

- The result of economic growth and price index.
- 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 3.8 billion or 5.9% more than the preliminary 2018, with a total value of ALL 50.5 billion. The main factors, which influence the forecast growth in revenues from excise tax, are as follows;

- 4% increase in import/domestic production of fuels;
- Increase of revenues from excise tax on tobacco and other substitutes by ALL 0.75 billion;
- More rigorous control of excise subjects and further disciplining of the procedures for obtaining exemptions and reimbursements from this tax.

Revenues from *Corporate Income Tax* are estimated to be realized at ALL 38 billion or ALL 1.5 billion (+4.2%) more than fiscal preliminary year 2019, as a result of:

- Economic growth, which will also be reflected in taxpayer statements;
- Strengthening the control of statements, based on risk criteria;
- Growth of self-declarations of taxpayers.

Revenues from *Personal Income Tax* are estimated to be realized at ALL 47.5 billion, ALL 1.3 billion more, or +2.9% more than the year 2019. Estimating the revenues from personal income tax is taken in to consideration several factors such as:

- Reduction of the revenues coming from dividend tax, as in 2019 (besides the dividend of 2018), the dividend of previous years was also collected. So this factor of about ALL 6 billion is considered as "one off revenue";
- The increase in the number of the active contributors based on the performance of 2018.
- The increase of other personal incomes.

Revenues from *National Taxes* are estimated to be realized at ALL 39.5 billion, ALL 3.7 billion or 10.4% more than the preliminary of 2019.

Revenues from *Custom Duties* are estimated to be realized at ALL 7 billion, ALL 518 million or 8% more than fiscal year 2019. In revenue programming, the effects of the increase of taxable imports, as well as some minimal effects from the movement of customs duties have been taken into account.

Revenues from *Social & Health Contributions* collected from GDT are considered to be realized at ALL 103 billion, ALL 4.7 billion or 4.8% more than preliminary 2019, which is estimated 98.3 billion. Programmed growth of revenues for contributions is supported by these factors:

- Economic growth, which will be reflected in increasing the number of employees;
- Strengthening the administration through the control of the declared wage level and its deviation from the real wage earned;
- The rate of increase in income from contributions in the last two to three years;

Fiscal Risks

According to revenue projections of 2020, there are some fiscal risks consisting of:

- The revenue projection for 2020 is based on nominal 4.1% economic growth and 2.1% price index. If the economy does not perform at these parameters, there is a risk to budget revenues. If the economy will grow not 4.1% but 3.5% the negative effect on tax revenues will be ALL 2-3 billion.
- An increase of 4% in Fuel Imports and Domestic Production is projected based on the performance of 2019. Failure to verify this increase may result in a lower turnover could have a negative effect on revenues by ALL -0.5 billion.
- The disapproval of the Law on "The revaluation of immovable properties" with a net negative effect in the Personal Income Tax by ALL -4 billion.

Table 4.3.2: Fiscal risk and the negative effects on Excise and VAT

Fiscal Risk	Negative effect (on ALL millions)		
	Excise	VAT	TOTAL
GDP growth not 4.1% but 3.5%		3,000	3,000
Fuel growth (import+domestic) not 4% as in 2019, but 2.4%	280	220	500
Postponement of the deadline for the implementation of the Law "On Invoice and Circulation Monitoring System"		3,000	3,000
Total	280	6,220	6,500

Source: Ministry of Finance and Economy

Medium-term central government financing needs

In the medium term, the Central Government financing needs will be achieved by using both domestic and external borrowing.

Domestic borrowing sources will continue to be the main contributor (*over 80% of the total gross financing*) in order to support the development of the domestic market for government securities and keep the foreign currency exchange risk under control (*foreign currency denominated debt/total debt less than 55%*). Despite the positive expectations in the activity of nonfinancial institutions and retail sector, domestic borrowing will continue to rely mostly on the banking sector.

Short term securities will be mostly used to refinance the existing maturities and for active liquidity management purposes, meanwhile long term securities will be used to cover the budgetary deficit. Domestic borrowing structure will remain 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 trade-off between cost and risks.

In the medium term external borrowing sources will cover up to 20% of the Central Government gross borrowing needs, and will contribute on the cost optimization of the debt portfolio, since a considerable part of this borrowing is expected to be conducted through concessional and semi-concessional terms. External borrowing by bilateral and multilateral sources will be utilized mostly to finance the government strategic projects and the reforms undertaken by the government. Also, private sources of financing acquired in the international capital markets will be used, mostly in order to manage risks, manage the debt liabilities in foreign currency, and keep domestic borrowing within acceptable levels in order to avoid crowding out of the domestic private sector.

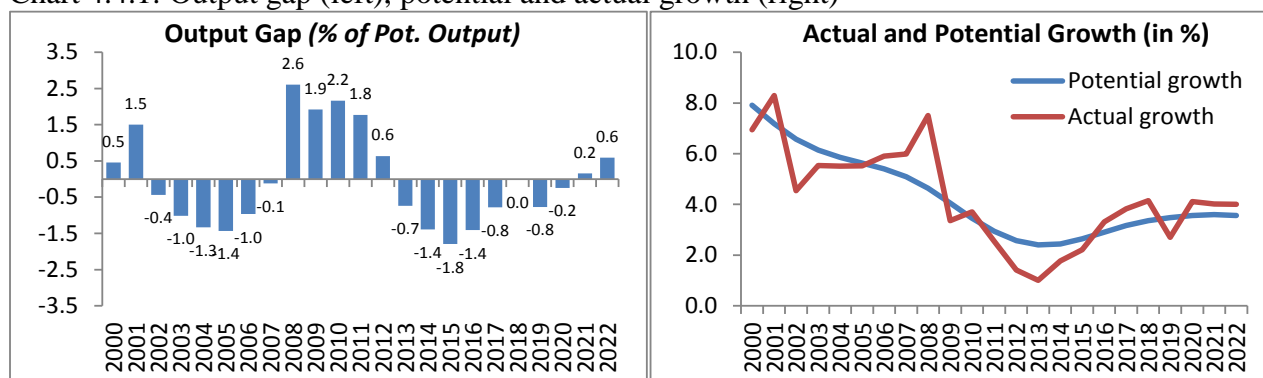
4.4. Structural balance (cyclically adjusted fiscal balance)

Estimating potential GDP and output gap

The HP filtering technique was deployed to estimate a time series of potential GDP. An HP-filter was applied on the actual real output (GDP) in constant prices by considering the most literature advocated values for the parameter lambda in the case of annual data, namely $\lambda = 100$; $\lambda = 30$; $\lambda = 6.5$. The potential GDP was then derived as an average of the HP-filtered series based on those three different lambda parameters. Based on the obtained potential GDP the output level is then calculated accordingly. The average of MFE and IMF WEO (October 2019) for 2020 - 2022 were utilized to address the end-point problem common with this filtering technique.

The output gap, formally defined as $OG_t = \frac{GDP_{t,actual} - GDP_{t,potential}}{GDP_{t,potential}}$ is presented on the left side of figure below. While the respective potential growth versus actual one is presented on the right side.

Chart 4.4.1: 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 period 2002 – 2006, almost closing in 2007 and then jumping to a relatively large positive gap in 2008. The last positive shift in output gap persisted somehow also during 2009-2012 gradually shrinking in reflection of a lower actual growth compared to the potential one due to the negative effects of the global financial crises. Despite Albania managed to absorb relatively much smoother the first hit from the global crises in 2009 avoiding a likely severe recession which took place in most of the other countries, still the actual growth was weakened substantially compared to pre-crisis levels but also compared to its potential one. In 2013 the lowest growth was recorded and at the same time the output gap shifted on negative territory and staying into negative until 2017 with the trough reached in 2015. The output gap was closed in 2018, but it is expected to return slightly negative in 2019 and 2020. Going forward in 2021 and 2022 output is expected to converge to its potential and trending toward a slightly positive output gap in 2022.

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 1.03, while the revenue elasticity estimated from the aggregated approach was 1.45.¹¹ Total revenues were adjusted for cyclical effects by applying the average elasticity obtained from both approaches, namely $\varepsilon_{R,Y} = \text{average}(1.03, 1.45) = 1.24$

The expenditure's elasticity didn't differ from zero. 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:

$$\sigma_B \equiv r(\varepsilon_{R,Y} - 1) - g(\varepsilon_{G,Y} - 1) = 0.251(1.24 - 1) - 0.261(0 - 1) = 0.321$$

Where: $r = 0.251$ is the average ratio of total revenues to GDP (excluding one-offs) for the last five years (2013 – 2017); $g = 0.261$ is the average ratio of primary expenditures to GDP (excluding one-offs) for the last five years (2013 – 2017). 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 0.321 percentage points of potential GDP.

Estimating 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 during certain periods of time. The obtained results are presented in the following tables and graph.

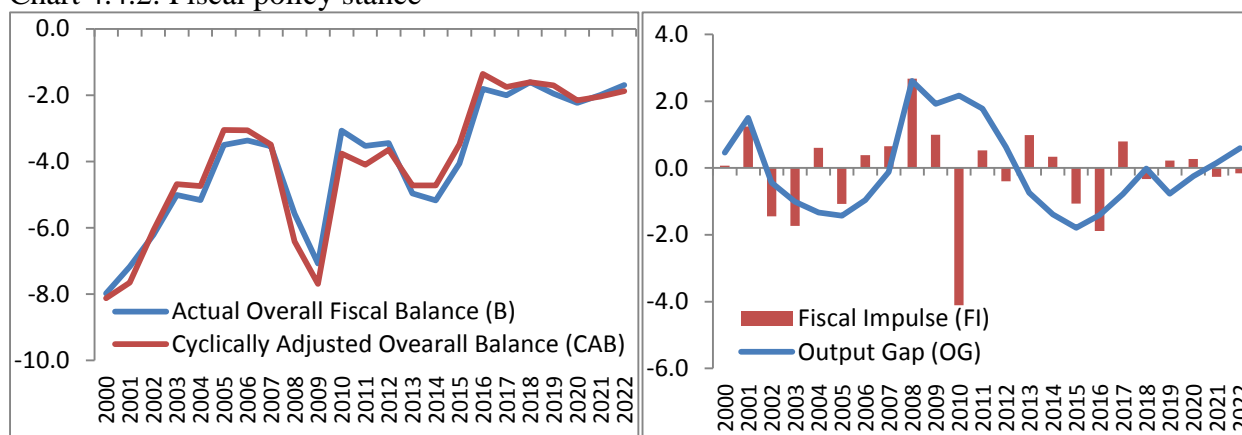
¹¹ Due to lack of data and relatively short series, in the case of disaggregated approach some of the estimated elasticity / coefficients were not significant at conventional levels and several assumptions were imposed.

Table 4.4.1: 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 Overall Balance (CAB)	Automatic Stabilizers (AS)	Fiscal Impulse (FI)	Fiscal stance relative to output gap
1999	1.4	-9.6	-1.7	0.4	-2.2	7.9	-10.0	-	-	-
2000	0.5	-8.0	-2.1	0.1	-2.2	5.9	-8.1	-0.3	0.1	Neutral
2001	1.5	-7.2	-3.0	0.5	-3.5	4.2	-7.7	0.3	1.2	Pro-cyclical
2002	-0.4	-6.2	-2.2	-0.1	-2.0	4.1	-6.1	-0.6	-1.4	Pro-cyclical
2003	-1.0	-5.0	-0.6	-0.3	-0.3	4.4	-4.7	-0.2	-1.7	Pro-cyclical
2004	-1.3	-5.2	-1.3	-0.4	-0.9	3.9	-4.7	-0.1	0.6	Counter-cyc
2005	-1.4	-3.5	-0.3	-0.5	0.2	3.2	-3.0	0.0	-1.1	Pro-cyclical
2006	-1.0	-3.4	-0.5	-0.3	-0.2	2.9	-3.1	0.1	0.4	Counter-cyc
2007	-0.1	-3.5	-0.9	0.0	-0.8	2.7	-3.5	0.3	0.7	Counter-cyc
2008	2.6	-5.6	-2.7	0.8	-3.5	2.9	-6.4	0.9	2.7	Pro-cyclical
2009	1.9	-7.1	-3.9	0.6	-4.5	3.2	-7.7	-0.2	1.0	Pro-cyclical
2010	2.2	-3.1	0.3	0.7	-0.4	3.4	-3.8	0.1	-4.1	Counter-cyc
2011	1.8	-3.5	-0.4	0.6	-0.9	3.2	-4.1	-0.1	0.5	Pro-cyclical
2012	0.6	-3.4	-0.3	0.2	-0.5	3.1	-3.6	-0.4	-0.4	Counter-cyc
2013	-0.7	-5.0	-1.7	-0.2	-1.5	3.2	-4.7	-0.4	1.0	Counter-cyc
2014	-1.4	-5.2	-2.3	-0.4	-1.9	2.9	-4.7	-0.2	0.3	Counter-cyc
2015	-1.8	-4.1	-1.4	-0.6	-0.8	2.7	-3.5	-0.1	-1.1	Pro-cyclical
2016	-1.4	-1.8	0.7	-0.5	1.1	2.5	-1.4	0.1	-1.9	Pro-cyclical
2017	-0.8	-2.0	0.1	-0.3	0.3	2.1	-1.7	0.2	0.8	Counter-cyc
2018	0.0	-1.6	0.6	0.0	0.6	2.2	-1.6	0.2	-0.3	Counter-cyc
2019	-0.8	-1.9	0.2	-0.2	0.4	2.1	-1.7	-0.2	0.2	Counter-cyc
2020	-0.2	-2.2	0.1	-0.1	0.1	2.3	-2.2	0.2	0.3	Counter-cyc
2021	0.2	-2.0	0.5	0.0	0.4	2.5	-2.0	0.1	-0.3	Counter-cyc
2022	0.6	-1.7	0.8	0.2	0.6	2.5	-1.9	0.1	-0.2	Counter-cyc

Source: Ministry of Finance and Economy

Chart 4.4.2: Fiscal policy stance



Source: Ministry of Finance and Economy

Table 4.4.2: Fiscal policy relative to economic cycles

Fiscal stance	Unit	Number of years	
		2000 - 2019	2020 - 2022
Pro-cyclical	number	9	0
Counter-cyclical	number	10	3
Neutral	number	1	0
Cumulative output gap v.s. Cumulative fiscal impulse --> Overall fiscal stance			
Cumulative output gap	p.p. of GDP	-1.1	0.5
Cumulative fiscal impulse	p.p. of GDP	-2.6	-0.2
Overall fiscal stance		Pro-cyclical	Counter-cyclical

Source: Ministry of Finance and Economy

This simple descriptive analysis shows that during 2000 – 2019 the stance of fiscal policy has been pro-cyclical in nine cases (years), counter-cyclical in ten of them and neutral in one of them. While for the three years horizon ahead (2020-2022), it is projected to be counter-cyclical in each year. When measured as a cumulative sum of fiscal impulses of each year relative to the cumulative output gap for those respective years, the fiscal stance results pro-cyclical during 2000-2019. More specifically, the cumulative output gap for 2000-2019 results negative at 1.1 percentage points of potential GDP, while the cumulative fiscal impulses for the respective period results also negative at 2.6 percentage points of GDP. This indicates a pro-cyclical fiscal policy most likely reflecting the relatively high level public debt and therefore implying for a higher importance being given toward the objective of ensuring long term sustainability of public finance versus the objective of short term stabilisation of economic cycles. In the medium term ahead 2020-2022 cumulative fiscal impulse is still projected to be negative, in line with the main objective of public debt reduction, however during this period that is expected to be somehow more in supportive also toward the economic stabilisation objective as far as the cumulative output gap is expected to be positive.

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

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

From January to September 2019, debt management has been characterized in overall terms by positive developments, in consistence with the Budget Plan for 2019 and the Medium Term Debt Management Objectives. In this regard, central government financing needs have been met by maintaining acceptable ratios between costs and risks. Also, activities that intend the further development of the primary market for government securities have been undertaken.

In accordance with the Budget Law, borrowing was successfully achieved by enabling the refinancing of existing debt maturities and by covering the government liquidity needs. Overall borrowing was realized by using both domestic and external sources, respectively at the levels of 45.2% and 67.1% of the annual borrowing plan¹².

In compliance with debt management objectives, the risks of domestic debt portfolio have been further mitigated and borrowing costs relative to risks have been kept under control.

Central Government Debt Development

By the end of September 2019, the central government debt amounted at ALL 1,109.9 billion or 65.1% of the GDP¹³. Compared to the end of 2018, central government debt stock increased by about ALL 3.3 billion in absolute terms, of which ALL 9.6 billion corresponded to the growth of domestic debt and -6.2 billion to external debt. Regardless the increase in nominal terms, the debt level is within the limits approved by the annual budget law and in line with the medium term macro-fiscal objectives for the reduction of debt/GDP level. In accordance with the Macro Fiscal objectives, the level of central government debt relative to GDP will continue to remain on the declining path and it is expected to decrease in average by 2.5 percentage points by the end of 2019.

¹² Approved by the Normative Act No. 2, dated 02.10.2019, "On the budget of 2019".

¹³ GDP on annual basis, as referred in the Draft Macro-Fiscal Framework 2021-2023.

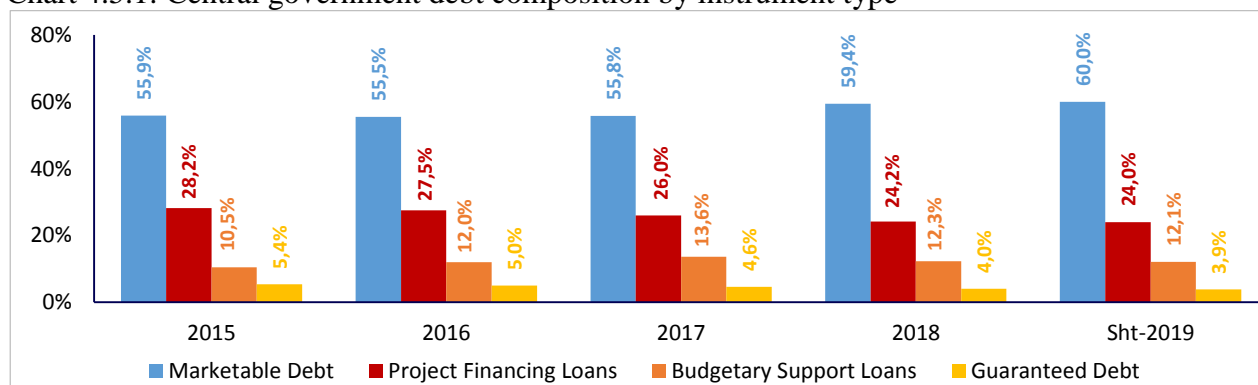
Table 4.5.1: Stock of total central government debt

	2015	2016	2017	2018	Sep-19
Total Debt Stock (I+II)	1,042,272.0	1,065,709.0	1,087,341.9	1,106,568.8	1,109,893.6
I. Domestic Debt Stock	551,375.0	561,120.0	577,055.7	580,310.3	589,870.5
Government	520,936.0	530,834.0	546,938.7	565,092.5	574,703.0
Guaranteed	30,439.0	30,286.0	30,117.0	15,217.8	15,167.5
II. External Debt Stock	490,897.0	504,589.0	510,286.2	526,258.5	520,023.1
Government	465,306.0	481,407.0	490,517.9	496,804.2	492,066.2
Guaranteed	25,591.0	23,182.0	19,768.2	29,454.3	27,956.9
GDP	1,434,308.0	1,472,479.6	1,551,281.4	1,630,904.8	1,705,246.4
Total Debt Stock/GDP	72.7%	72.4%	70.1%	67.8%	65.1%
Domestic Debt Stock/GDP	38.4%	38.1%	37.2%	35.6%	34.6%
External Debt Stock/GDP	34.2%	34.3%	32.9%	32.3%	30.5%

Source: Ministry of Finance and Economy

In terms of instrument composition and maturity structure debt has followed almost the same trends as in 2018. Marketable debt (*Treasury Bills, Treasury Bonds and Eurobond*) continues to represent 60% of the central government debt portfolio, reflecting the favourable conditions in the domestic and international capital markets lately.

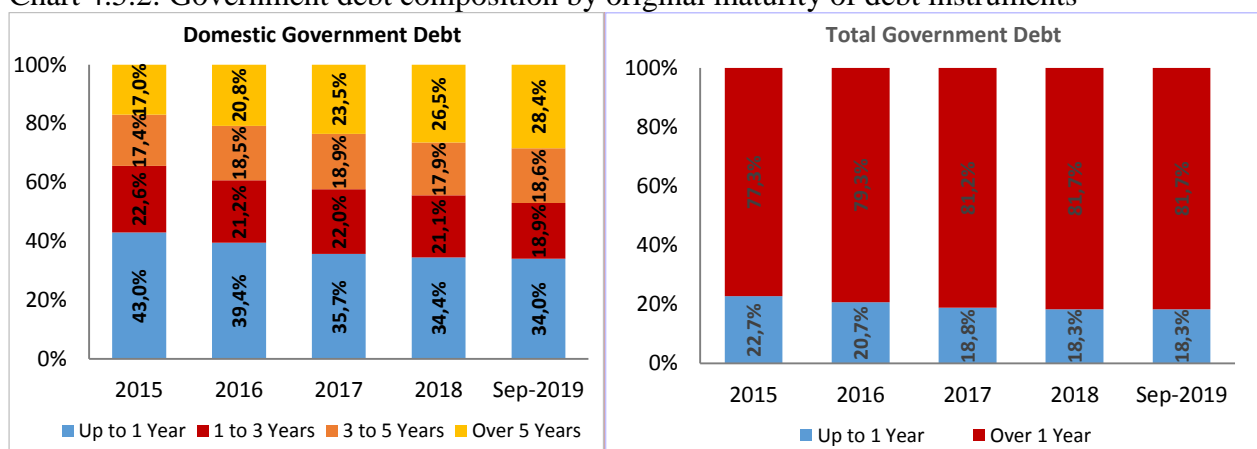
Chart 4.5.1: Central government debt composition by instrument type



Source: Ministry of Finance and Economy

In line with the strategic objectives for risk mitigation purposes the share of long term government domestic debt increased by 0.4 percentage points.

Chart 4.5.2: Government debt composition by original maturity of debt instruments



Source: Ministry of Finance and Economy

Financing Needs

During the nine months of 2019, the government has issued securities in the amount of ALL 246.3 billion in the domestic market (ALL 235.9 billion enabled the refinancing of existing securities). In

line with the strategic objectives, new borrowing in the domestic market has been realized mainly through long term government securities.

Table 4.5.2: Domestic Borrowing

Type of Instrument	January-September 2019			
	Issuance (in billion ALL)	Maturities (in billion ALL)	Net Financing (in billion ALL)	Net Financing (in %)
Short Term Instruments	164.3	163.2	1.1	10.6%
Treasury Bills	164.3	163.2	1.1	10.6%
Long Term Instruments	82.0	72.8	9.2	89.4%
2 Year Bonds	31.8	45.8	-14.0	-135.3%
3 Year Bonds	14.1	10.7	3.4	32.6%
5 Year Bonds	17.7	11.3	6.4	61.4%
7 Year Bonds	8.9	5.0	3.9	38.0%
10 Year Bonds	9.6	0.0	9.6	92.7%
Total	246.3	235.9	10.3	100.0%

Source: Ministry of Finance and Economy

External borrowing during nine months of 2019 amounted at EUR 107.5 million, mainly achieved by multilateral and bilateral sources in the form of loan disbursements, which financed the ongoing and new development projects, and as well some of the reforms undertaken by government. The level of realization of external borrowing has been comparable with the same period of the previous year.

Table 4.5.3: External Borrowing

	9m. 2018		9m. 2019	
	Amount (in million EUR)	% of Total	Amount (in million EUR)	% of Total
Total Disbursements	104.4	100.0%	107.5	100.0%
Budgetary Support	0.2	0.2%	14.0	13.0%
Project Financing	104.1	99.8%	93.5	87.0%

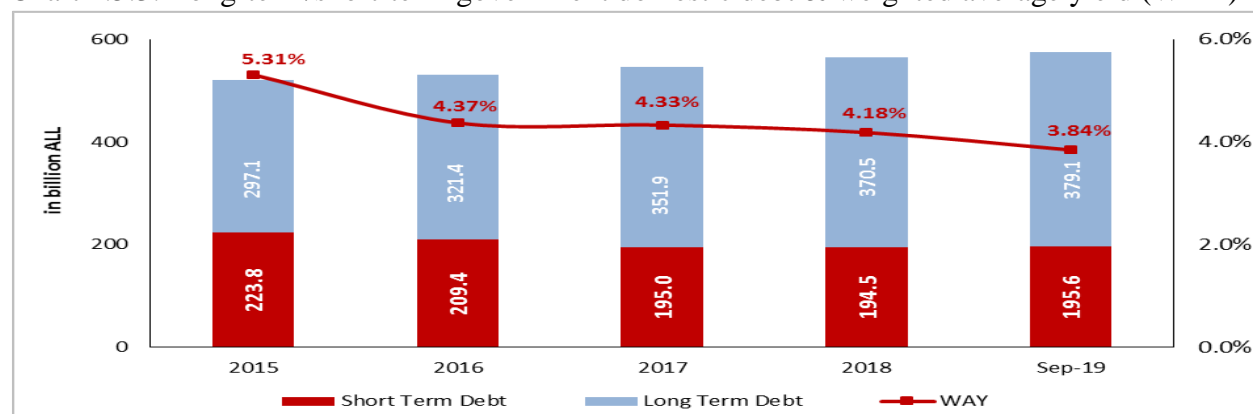
Source: Ministry of Finance and Economy

Cost and risks

The favourable conditions in the domestic and external markets as regard the demand for sovereign debt and the low interest rate environment during 2019, accompanied with a borrowing strategy mostly based on long-term fixed interest rate securities have enabled the further reduction of risks exposure while maintaining costs under control.

Notable improvement in the relation between cost and risks is shown in the domestic debt side where WAY has continued to decline despite the increase in pace of long term debt.

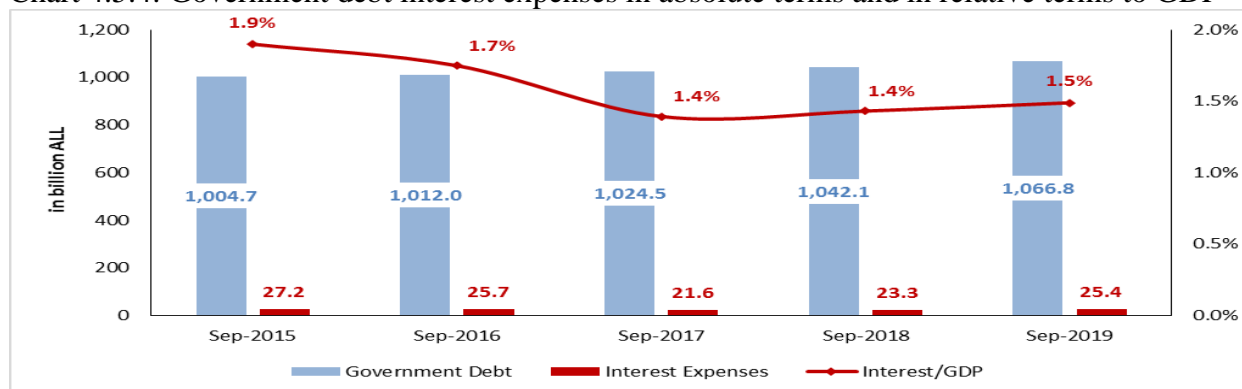
Chart 4.5.3: Long-term/short-term government domestic debt & weighted average yield (WAY)



Source: Ministry of Finance and Economy

During nine months of 2019, interest expenses amount at ALL 25.4 billion. Compared with the same period of 2018, interest expenses for government debt increased by ALL 2.1 billion mostly due to the increase of debt stock in absolute terms.

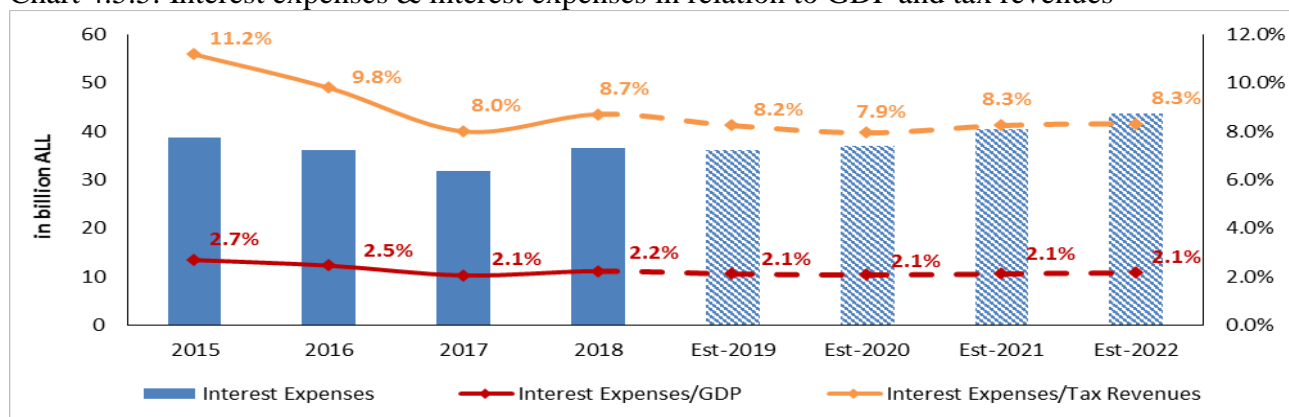
Chart 4.5.4: Government debt interest expenses in absolute terms and in relative terms to GDP



Source: Ministry of Finance and Economy

In the medium term, it is expected a gradual increase in the expenses for debt interest payments in absolute terms, mostly due to the debt stock increase. Albeit, in relative terms to GDP and tax revenues debt cost is expected to remain stable and relatively below the average of the last 5 years.

Chart 4.5.5: Interest expenses & interest expenses in relation to GDP and tax revenues



Source: Ministry of Finance and Economy

The reduction of refinancing and interest rate risk in the domestic debt portfolio has been one of the main strategic objectives of debt management. In this regard, considerable progress has been achieved during the three quarters of 2019.

External debt continues to pose less risks since it is composed by long term instruments and a considerable share of it is borrowed with concessional terms.

Refinancing risk has further declined due to the decrease in the share of short term debt. The average maturity of domestic debt surged from 783 days at the end of 2018 to 819 days by the end of September 2019.

Interest rate risk has shown significant improvement as well, due to the decrease in the share of short term and variable rate instruments in the domestic debt portfolio, respectively with 0.38 and 1.57 percentage points compared to the end of 2018. In addition, the share of debt that re-evaluates the interest rate within one year reduced from 54.3% in December 2018 to 50.8% in September 2019.

Table 4.5.4: Domestic debt interest rate risk indicators

Indicator	2017	2018	Sep-2019
Variable rate bonds/Total domestic debt	8.8%	6.5%	4.9%
Fixed rate bonds/Total domestic debt	55.6%	59.1%	61.0%
Re-evaluated debt in one year/Total domestic debt	56.7%	54.3%	50.8%

Source: Ministry of Finance and Economy

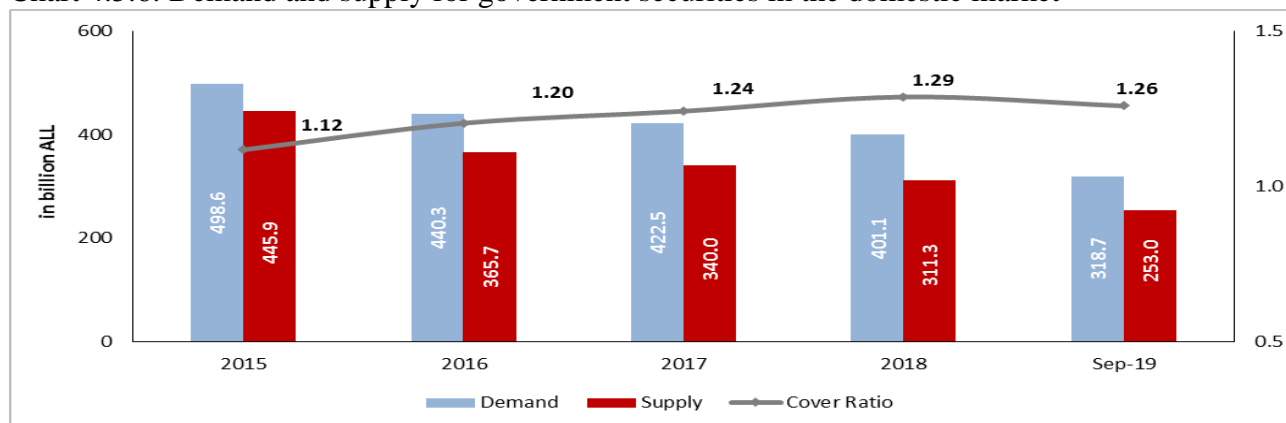
Despite the positive developments, domestic debt continues to pose a relatively high refinancing and interest rate risk that amplifies due to the absence of an active secondary market and due to the narrow base of investors. In this regard, in the medium and long term, debt management will continue its efforts to extend the average maturity of domestic debt and keep under control the share of variable rate securities.

Market Development

During 2019, the domestic market for government securities has been characterized mainly by positive developments related to the satisfactory demand and the decline in interest rates compared to the end of 2018.

During the nine month period, the demand for government securities amounted to ALL 318.7 billion (ALL 190.1 billion demand for treasury bills and ALL 128.7 billion demand for bonds). The demand for government securities has been relatively high compared to the supply and has generated an overall bid/cover ratio of 1.26.

Chart 4.5.6: Demand and supply for government securities in the domestic market



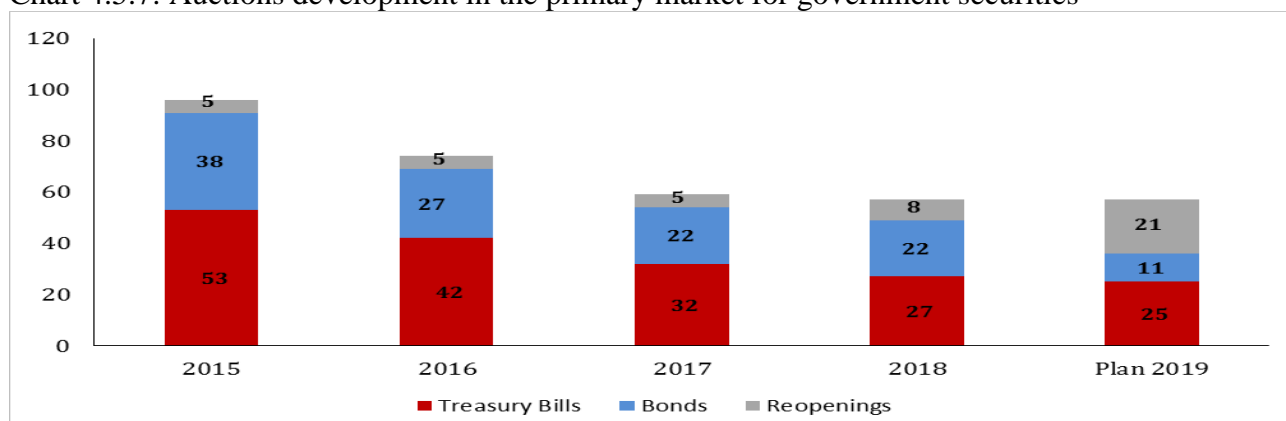
Source: Ministry of Finance and Economy

Within the framework of enhancing primary market infrastructure and stimulating the secondary market development, several activities have been undertaken during 2019.

The undertaken activities aimed the creation of benchmarks for long term securities and the reduction of demand fragmentation. As regard the benchmark creation for long term securities, a market-maker pilot program for sovereign bonds was introduced in 2018. This program started implementation with the 5 year bonds and was expanded to the 3 year bonds during 2019. The preliminary data of the market-maker pilot program have shown positive results related to trade activity in the secondary market.

Furthermore, in the primary market the number of auctions have been consolidated, by using frequent reopening of existing issues instead of new ones (*new lines*).

Chart 4.5.7: Auctions development in the primary market for government securities



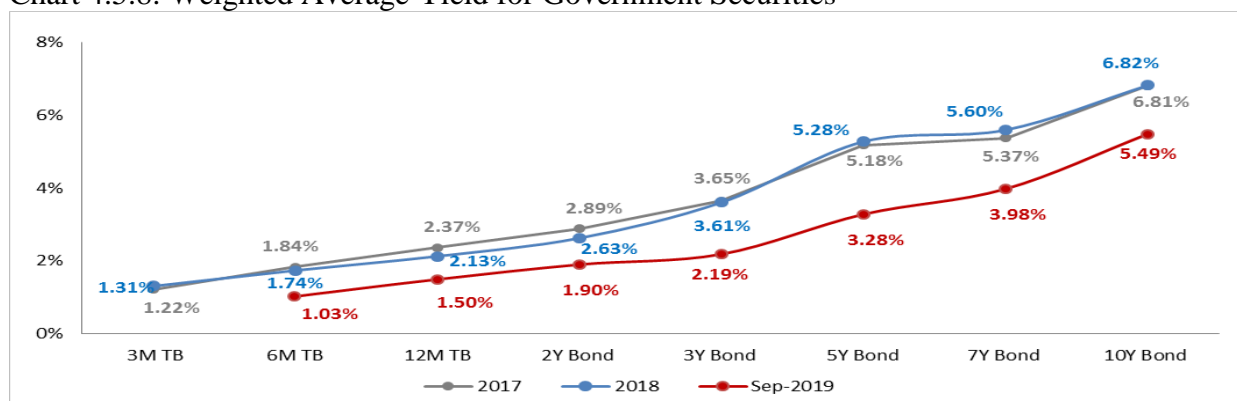
Source: Ministry of Finance and Economy

In the medium term, debt management will continue with activities in the primary market which intend to increase liquidity, efficiency and transparency.

Interest Rate Development

The weighted average yield of the issued government securities during the 9 months of 2019 has decreased compared to 2018. This decline is mostly attributed to the monetary policy undertaken by the Bank of Albania and as well to the relatively low domestic borrowing needs compared to market demand for sovereign securities.

Chart 4.5.8: Weighted Average Yield for Government Securities



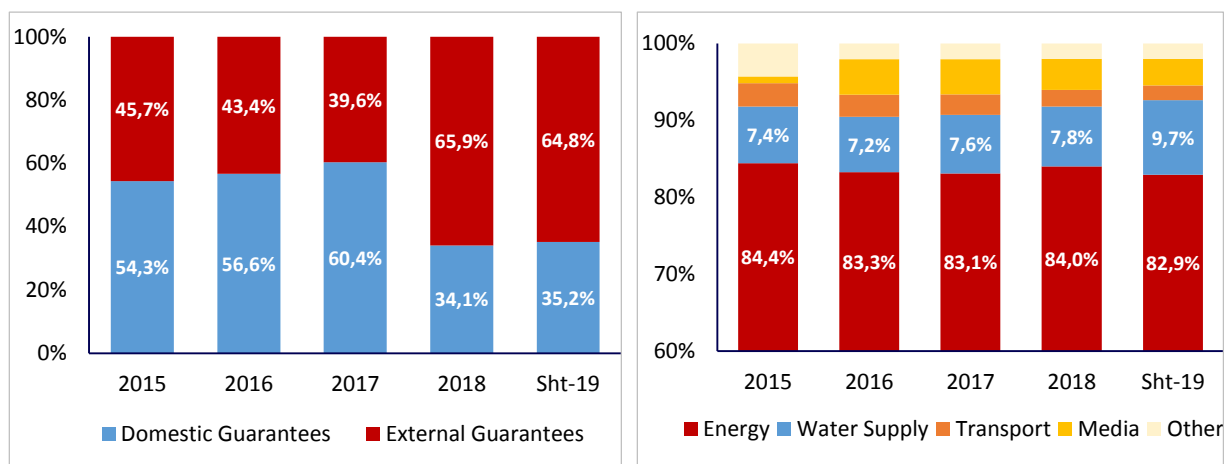
Source: Ministry of Finance and Economy

Over the medium term, the interest rates for government securities in the domestic market are expected to stay as the same levels comparable to current rates.

Contingent Liabilities

At the end of September 2019, guaranteed debt portfolio amounts to ALL 43.1 billion (2.5% of the GDP) or 3.9% of the central government debt portfolio. Guarantees in the domestic market account for 35.2% of the total guaranteed debt stock or ALL 15.2 billion, while guarantees issued in favour of foreign creditors represent 64.8% of the guaranteed debt stock or ALL 28.0 billion. Domestic guaranteed debt is composed by short-term credit lines issued by national banks to KESH sh.a., while external guaranteed debt consists of long-term loans mostly with concessional or semi-concessional terms.

Chart 4.5.9: Guaranteed Debt by market and sector



Source: Ministry of Finance and Economy

In the medium term, the level of guaranteed debt is planned within the level of 5% - 6% of GDP and the new guaranteed debt will be issued mostly for purpose such as:

- To support the development 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.

Concessions and Public-Private Partnerships:

The Ministry of Finance and Economy evaluates and approves in advance all concessions and public private partnership (PPP) projects, as well as any change to them, in terms of individual or portfolio implications to budget expenditures, deficit, public debt sustainability and eventual contingent liabilities. The total amount of net payments made by central government units, arising from concessions or public private partnerships (PPP) contracts should not exceed the limit of 5 percent of actual tax revenues of the previous budget year. In case of exceeding this limit, Council of Ministers takes necessary and sufficient corrective measures toward budgetary revenues, to return within the allowed limit, over the next two budget years.

Currently, 13 concessions and public private partnerships (PPP)¹⁴ contracts are active, according to the following table:

¹⁴ PPP Contract “Construction, Operation and Transfer (BOT) HEC on the Devoll River, reimbursement of replacement road construction” ends at the end of 2019, year in which is expected to be realised the final payment.

Table 4.5.5: Concessions/PPP active with budget support

Contracting Authority	No.	Contract of Concession / PPP	Starting year	Ending Year	Program	Type of expenditure	2019 11 month	2019 Planned	2020 Expectation	2021 Expectation	2022 Expectation
Ministry of Infrastructure and Energy	1	Construction, operation and transfer of incinerator for urban waste processing of Elbasan Municipality	2015	2021	06220	Investime	484,916	661,500	661,500	331,000	0
	2	Construction, operation and transfer of incinerator for urban waste processing of Fier Municipality	2016	2023	06220	Investime	564,576	752,772	752,770	752,770	752,770
	3	Construction, Operation and Transfer (BOT) HEC on the Devoll River, reimbursement of replacement road construction*	2015	2019	04320	Investime	1,505,821	1,580,406	0	0	0
	4	Construction and Operation of the Arbër Road	2018	2030	04520	Investime	2,654,774	2,701,500	3,925,000	3,325,000	3,000,000
	5	Construction, Operation and Maintenance of Milot-Morinë Road	2017	2047	04520	Investime	558,598	685,000	720,000	720,000	692,000
	6	Construction and Operation Porti Jahteve Oriku - Dukat	2018	2030	04520	Investime	0	0	393,147	1,087,880	1,036,300
	7	Construction and Operation Milot - Balldren	2018	2032	04520	Investime	0	0	100,000	100,000	312,000
Ministry of Finance and Economy	1	Customs scan service	2013	2030	01150	Korrente	1,384,497	1,512,571	1,540,896	1,587,123	1,634,737
Ministry of Health and Social Protection	1	Concession / PPP Basic control of population (check up)	2015	2024	07220	Korrente	803,076	876,083	876,083	876,083	876,083
	2	Concession / PPP (Provision of personalized sets of surgical instruments, sterile single-use medical materials in surgical rooms, treatment of biological waste and disinfection of surgical rooms)	2015	2024	07330	Korrente	1,907,940	2,134,827	1,655,322	1,704,982	1,756,211
	3	Concession / PPP (Provision of dialysis service in 5 regional hospitals)	2016	2025	07330	Korrente	719,650	751,448	688,581	734,021	756,200
	4	Hospital Laboratory Services	2019	2028	07330	Korrente	0	0	1,280,444	1,290,241	1,300,136
Municipality of Tirana/ Ministry of Education, Sports and Youth	1	Improving the educational infrastructure in Tirana Municipality	2017	2024	09120	Investime	0	0	1,018,303	1,528,336	1,401,505
Ministry of Infrastructure and Energy/ Municipality of Tirana	1	Construction of landfill, incinerator and rehabilitation of existing landfill of Tirana and electricity generation	2017	2046	06220	Korrente	977,125	977,125	998,410	1,165,124	1,165,124
	14						11,560,973	12,633,232	14,610,456	15,202,560	14,683,066
Total Expected Tax Revenues for the period 2019-2021								448,336,713	465,089,688	490,815,966	...
Fiscal Rule (Payments should not exceed 5 percent of actual tax revenues of the previous budget year)							2.8%	3.0%	3.3%	3.3%	3.0%

*PPP Contract "Construction, Operation and Transfer (BOT) HEC on the Devoll River, reimbursement of replacement road construction" ends at the end of 2019, year in which is expected to be realised the final payment.

Source: Ministry of Finance and Economy

According to the article 4/2, Law No. 9936 date 26.06.2008 "On the management of the budgetary system", where it is determined that "the total amount of net payments made by central government units, arising from concessions or public private partnerships (PPP) contracts should not exceed the limit of 5 percent of actual tax revenues of the previous budget year", for 2020 it is noticed that:

- For year 2020, the allowed limit of net payments for concessions and PPP contracts, of 5 percent of expected tax revenues of the year 2019, is about ALL 22.42 billion.
- According to the table above, for the year 2020 expected net payments from central government units for concessions and PPP, are about ALL 14.6 billion.
- Therefore, according to the specific fiscal rule, the legal limitation abovementioned is fulfilled for the budget year 2020, as the estimated value of ALL 14.6 billion for concessions and PPP contracts for 2020 represent about 3.3 percent of expected total tax revenues of 2019, amounting to ALL 448.3 billion.

During year 2019, Ministry of Finance and Economy has intensified the performance monitoring over concessions/PPP contracts with budgetary support, not only monitoring the financial performance but also the performance indicators planned/actual for each concession/PPP contract. Starting from 2019, monitoring and reporting process for concession/PPP contracts has been institutionalized through the inclusion in Supplementary Instruction No.1, dated 17.01.2019 "On the implementation of the 2019 budget", the mandatory timetable of their reporting by each contracting authority and the respective standard formats, in order to deepen the analysis and increase transparency. This monitoring is performed on a monthly basis.

Regarding the actual performance of concessions payments, for the period January-November 2019 and the expectations for the end of 2019, a comprehensive summary is described below:

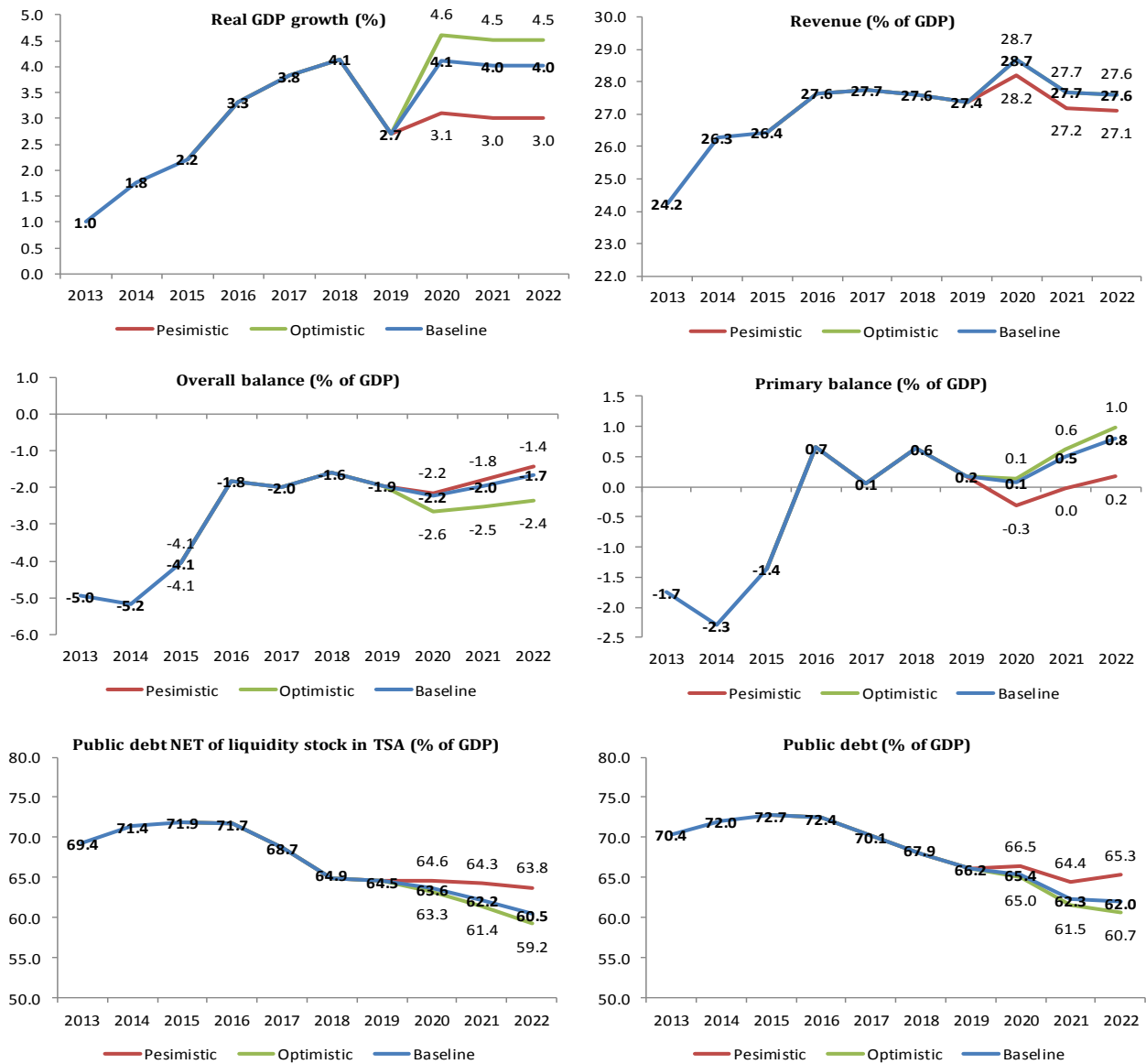
- Budget funds planned for the year 2019, to support concession/PPP contracts, amounted to about ALL 12.63 billion, where ALL 6.38 billion are investments and ALL 6.25 billion are current expenditures.
- Compared to actual expenditures for 2018 which amounted to ALL 8.76 billion, the 2019 plan result 44.2 percent higher or about ALL 3.87 billion more.
- Total actual payments for the period January-November 2019 are ALL 11.56 billion or 91.5 percent of the total plan for 2019, changed. The highest level of payments is realized in January with ALL 2.9 billion of which ALL 2.52 billion is the payment to “Construction and Operation of Arbër Road” contract, specifically for the “construction, operation and maintenance” of this contract.
- Compared to the actual payments for the same period (11M) of the previous year 2018, the realization for the 11-month period of 2019 results in the amount of about ALL 4.1 billion more or 55.9 percent higher.
 - Emphasize the fact that, for the “Construction of Arbër Road”, there was no budgetary payment in 2018.
- Based on the forecasted payments for the last month of 2019 (December), planned fund to be executed is ALL 742.5 million, a level that would fulfill 97.4 percent of the annual plan for 2019.

4.6. 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 3.3. 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 higher as under 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 as well as in the case of “optimistic” scenario.

The main item of expenditures which are planned to absorb most of the fiscal effects in the case of each alternative scenario are "current 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 and therefore no additional interest expenditures than the baseline budgeted ones (which is most plausible case), then a buffer in the range of around 0.3 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.

Chart 4.6.1: Dynamics of main indicators under different scenarios



Source: Ministry of Finance and Economy

Table 4.6.1: Main fiscal indicators in each scenario

	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
							Est.	Proj.	Proj.	Proj.
Total Revenue (in billion Lek)										
Baseline	327.2	366.7	379.2	407.0	430.4	449.9	462.5	509.7	520.4	549.5
Pesimistic								496.0	501.2	524.2
Optimistic								512.1	525.4	557.5
Total expenditures (in billion Lek)										
Baseline from which:	394.1	438.8	437.4	433.7	461.4	476.1	495.4	549.4	557.3	582.4
<i>(% of GDP)</i>	29.2%	31.5%	30.5%	29.5%	29.7%	29.2%	29.3%	30.9%	29.6%	29.3%
Current expenditures	328.6	341.0	350.8	368.7	382.3	397.3	420.0	446.0	466.8	486.0
<i>(% of GDP)</i>	24.3%	24.4%	24.5%	25.0%	24.6%	24.4%	24.9%	25.1%	24.8%	24.4%
Capital expenditures from wich:	65.5	60.7	63.1	59.5	68.5	78.4	75.4	101.6	88.6	94.4
<i>(% of GDP)</i>	4.8%	4.4%	4.4%	4.0%	4.4%	4.8%	4.5%	5.7%	4.7%	4.7%
Domestic financing	36.7	34.0	38.1	39.1	46.2	52.2	50.4	52.3	52.6	58.2
Foreign financing	28.8	26.8	24.9	20.4	22.3	26.2	24.9	29.3	31.1	34.2
Pesimistic from which:								542.5	547.7	569.7
<i>(% of GDP)</i>								30.8%	29.7%	29.5%
Current expenditures								446.0	466.8	486.0
<i>(% of GDP)</i>								25.3%	25.3%	25.1%
Capital expenditures from wich:								94.8	79.0	81.7
<i>(% of GDP)</i>								5.4%	4.3%	4.2%
Domestic financing								45.5	43.0	45.6
Foreign financing								29.3	31.1	34.2
Optimistic from which:								550.6	559.8	586.4
<i>(% of GDP)</i>								30.8%	29.5%	29.0%
Current expenditures								446.0	466.8	486.0
<i>(% of GDP)</i>								25.0%	24.6%	24.1%
Capital expenditures from wich:								102.9	91.1	98.4
<i>(% of GDP)</i>								5.8%	4.8%	4.9%
Domestic financing								49.3	52.1	59.2
Foreign financing								29.3	31.1	34.2
Overall balance (% of GDP)										
Baseline	-5.0	-5.2	-4.1	-1.8	-2.0	-1.6	-1.9	-2.2	-2.0	-1.7
Pesimistic								-2.6	-2.5	-2.4
Optimistic								-2.2	-1.8	-1.4
Financing of overall balance (in billion Lek)										
Baseline from which:	66.9	72.1	58.2	26.7	31.0	26.2	32.9	39.7	36.9	32.9
Net domestic borrowing	46.3	38.2	-17.3	10.6	16.3	19.6	18.5	29.9	22.9	22.9
Net foreign borrowing from wich:	10.8	29.9	64.6	17.5	29.1	33.1	-7.5	14.2	-16.1	37.7
Budgetary support from IFIs	0.0	30.5	111.5	21.1	31.3	0.9	1.6	3.5	7.0	0.0
Other foreign borrowing	9.6	1.3	-43.9	-3.2	-2.4	32.1	-9.1	10.7	-23.1	37.7
Pesimistic from which:								46.5	46.5	45.6
Net domestic borrowing								36.7	32.5	35.6
Net foreign borrowing from wich:								14.2	-16.1	37.7
Budgetary support from IFIs								3.5	7.0	0.0
Other foreign borrowing								10.7	-23.1	37.7
Optimistic from which:								38.5	34.4	28.9
Net domestic borrowing								28.7	20.4	18.9
Net foreign borrowing from wich:								14.2	-16.1	37.7
Budgetary support from IFIs								3.5	7.0	0.0
Other foreign borrowing								10.7	-23.1	37.7
Primary balance (% of GDP)										
Baseline	-1.7	-2.3	-1.4	0.7	0.1	0.6	0.2	0.1	0.5	0.8
Pesimistic								-0.3	0.0	0.2
Optimistic								0.1	0.6	1.0
Public debt NET of liquidity stock in TSA (% of GDP)										
Baseline	69.4	71.4	71.9	71.7	68.7	64.9	64.5	63.6	62.2	60.5
Pesimistic								64.6	64.3	63.8
Optimistic								63.3	61.4	59.2
Public debt (% of GDP)										
Baseline	70.4	72.0	72.7	72.4	70.1	67.9	66.2	65.4	62.3	62.0
Pesimistic								66.5	64.4	65.3
Optimistic								65.0	61.5	60.7

Source: Ministry of Finance and Economy

4.7. Fiscal governance and budgetary frameworks

Fiscal governance and budgetary frameworks are the main issues of the PFM cycle. PFM reform is under implementation. During 2019, Ministry of Finance and Economy has prepared the new PFM strategy 2019-2022. It was approved by Council of Minister Decision on 18 December 2019. It replaces the earlier Strategy for the period 2014-2020, based on the 2018 Mid-Term Review (MTR) of the Strategy, which aims to extend the PFM Strategy and Action Plan beyond 2020 for an additional two years to 2022 to enable a smooth transition to the Instrument for Pre-Accession Assistance (IPA) post-2020.

The programme will describe envisaged changes to the country's fiscal governance, i.e. to the set of arrangements, rules, and institutions that underlie the conduct of fiscal policy, such as:

(1) Numerical fiscal rules;

The main Government objective in the new PFM Strategy 2019-2022 will continue to be reinforcement of the medium term macro-fiscal framework by enhancing the procedural rules that will seek to eliminate the risk of systematic optimistic biases in the forecasts of GDP and budget revenues. Also, the government will seek to further strengthen fiscal risk monitoring and management. Government of Albania will work to address the recommendation by various assessments that the fiscal framework needs to be structured around a more operational fiscal anchor, such as the primary balance, than the debt ratio and that in order for the debt to be on a declining path until it reaches 45 percent of GDP, and to prepare an operational guidance.

(2) Independent fiscal institutions to monitor fiscal performance and/or advise the government on fiscal policy matters;

The Government replaced the originally planned creation of a Fiscal Council with the introduction of fiscal rules in the OBL, which has allowed the MoFE to have an effective anchor for the determination of its fiscal stance, starting from the 2017 budget. The amendments to the OBL are detailed and clear. They reach the same objective as that of a fiscal council, i.e. more realistic forecasts of revenues and expenditures. In the context of Albanian Public Administration, they have the advantage of being embedded in the law and being immediately implementable.

(3) Medium-term budget frameworks;

Many gaps were identified in the MTBP process. With the PFM Technical Assistance support, some weaknesses have been addressed, for example the approval of a new methodology for the MTBP preparation and new instructions for budget preparation. These regulatory changes contributed to strengthening the capacity of MoFE and Line Ministries for MTBP and budget formulation and preparation, but work still needs to be done to strengthen the guiding role of the MTBP document and the quality of the strategic phase of budget preparation. In addition, the review of the BIs' MTBP submissions revealed that more emphasis should be placed on the implementation of performance based budgeting where setting of strategic goals, objectives and outcome indicator and their respective targets at program level is done. Positively, Gender Responsive Budgeting (GRB) in Albania has progressed at a pace over the past five years. The recent amendments to the OBL in 2016 as well as the Local Finance Law approved in 2017 has made it mandatory for all central and local government institutions to manage all their policies and budgets in full accordance with Gender Equality principles. However, there are still considerable challenges considered in PFM Strategy 2019-2022 in order to fully implement GRB in the PFM cycle at both the central and local level.

(4) Use of realistic, unbiased forecasts for budget planning and their regular evaluation;

As explained above, enhancing the procedural rules it will lead in elimination of the systematic optimistic biases risk of in the forecasts of GDP and budget revenues. For this purpose, in the new PFM Strategy, MoFE has planned to purchase and use an adequate IT-software for revenue forecasting models and to prepare guidelines for users to properly use the tax revenue models.

(5) Availability and quality of fiscal data and alignment with ESA standards.

Progress has been made towards strengthening INSTAT, however in the PFM Strategy 2019-2022 is included that a comprehensive, standardised statistical system for general government units will need to be prepared and will be accompanied by revisions of policies, standard procedures and templates to enable the preparation of reports following ESA 2010. In this context, the inter-institutional Working Group strengthening and the development of an integrated GFS compilation system will be in focus in the upcoming years, as part of PFM strategy 2019-2022. Furthermore, EDP notification tables have been sent regularly to EUROSTAT since 2014 but still require further development.

4.8. Sustainability of public finances

The authorities are expected to spell out their policy strategy with respect to the sustainability of public finances. In support of this strategy, the programmes will present an analysis of the long-term sustainability of public finance, especially in light of the envisaged trends in pension and health care expenditures. The underlying policies should be appropriately described and projections should be based on a "current policy scenario". In case of planned but not yet implemented reforms, an alternative "reform scenario" table should also be provided and reforms, such as in the area of pension and health care, should be outlined.

The PFM Strategy 2019-2022 aims to consolidate lessons learned, outputs and results agreed after the Mid-Term Review carried out in 2018 and to serve as a framework and guideline to guide improvements in PFM results for 2019- 2022. This revised Strategy enables the GoA to include the required PFM measures that have emerged since 2014 within the framework so that these priorities can be addressed effectively. While changes have been incorporated into the Strategy, the foundation remains the same with the vision and overall objective being maintained:

The vision of the PFM reform Strategy is to ensure a public finance system that promotes transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development.

The overall objective of the PFM reform Strategy is to achieve a better balanced and sustainable budget with a reduced debt ratio through stronger financial management and control and audit processes and where budget execution is properly linked to Government policies. The Strategy has been reorganised to reflect the changing PFM reform priorities since 2014 and is now addressed through seven (rather than six) 'Specific Objectives' (formerly Pillars) in line with the revised strategic planning and monitoring framework that has recently been introduced by the Prime Minister's Office (PMO):

Specific Objective 1: Sustainable and prudent fiscal framework. Through this objective, the Government expects to have a prudent macroeconomic framework and fiscal policy in place with the objective to decrease the debt/GDP ratio over the medium term to 60 percent and to contain fiscal risks more effectively.

Specific Objective 2: Well-integrated and efficient planning. The Government recognises the need to further align key Government planning documents, such as the National Strategy for Development and Integration (NSDI-II), Sectorial Strategies and the Medium Term Budget Programme (MTBP), which is the focus of Specific Objective 2. The annual budget and MTBP processes will continue to be enhanced and arrears will be minimised. It is also crucial that Public Investment Management (PIM) is streamlined between the MOFE and PMO and that oversight is strengthened.

Specific Objective 3: Revenue mobilization. Increased revenue mobilisation is the focus of Specific Objective 3 with improved efficiency in collection of revenue resources encompassing both taxation and customs leading to greater stability in financing the budget at both national and Local Government (LG) levels. Informality will also be reduced.

Specific Objective 4: Efficient execution of the Budget. It will include a focus on the full integration of the Financial Management Information System (FMIS) with other PFM systems, minimising manual operations and enabling more accuracy and timeliness of reporting across all financial operations of the government. Its overall objective is to ensure efficient and effective use of approved budget resources. Interventions will seek to minimise arrears; reduce the costs of borrowing; and increasing the efficiency and transparency of the procurement system.

Specific Objective 5: Transparency of Public Finances. This objective seeks enhanced accountability and transparency through better financial and non-financial performance reporting in line with international standards to improve coverage, quality and accessibility of information on public finances. Further efforts shall be made to engage the public in the budget process.

Specific Objective 6: Effective internal control. Financial discipline, control and transparency through improved Internal Audit (IA), Financial Management Control (FMC) and efficient Public Financial Inspection at central and LG levels is the focus of this objective.

Specific Objective 7: Effective external oversight of the Public Finances. Finally, this objective seeks to increase the effective external oversight of public finances by enhancing the capacity of the Albanian Supreme Audit Institution (ALSAI) (formerly known as High State Control (HSC)). Financial and performance audits will increase, so their value and benefits to society can be maximised.

In the framework of the 2019-2022 PFM Strategy implementation, the Government of Albania will promote and deepen reforms to accelerate their implementation to meet the objectives during 2019-2022. Focus of the government in this document will be: reduction of public debt; settlement and prevention of arrears; continuous mobilization to collect tax and customs revenue improve management of public investment projects including Public Private Partnerships and concessions; providing a better linkage of strategic plans with the Mid-Term Budget Program; A more structured and timely engagement with citizens, civil society organizations and academia in budget planning, monitoring and reporting; Increasing efforts to improve the degree of implementation for the State Supreme Audit recommendations and findings.

5. STRUCTURAL REFORM PRIORITIES IN 2020-2022

5.1. Identification of key obstacles to growth and competitiveness and inclusive growth

The previous Economic Reform Programme (ERP) outlined detailed diagnostics of the obstacles to competitiveness and further economic growth and the development of Albania, and included reform measures aimed at addressing them. Due to the nature of these structural reform and the obstacles they address, it is a process that is expected to continue in the long-term.

Although the various reports produced by international organisations state that Albania's competitiveness has improved, obstacles have been identified which need to be addressed in order to ensure further development in the country. The IMF report of July 2019 stated that over the medium-term, GDP growth is projected to increase as activity is expected to be driven by a pickup in EU growth, increasing labour market participation, gradual strengthening of exports including tourism, and investments necessary to narrow the country's large infrastructure gap. To that end, structural reforms in those sectors are seen as priority by the government and will continue to be included in the ERP.

The Doing Business 2020 report identified the obstacles with regard to improving doing business and enhancing overall competitiveness where the Albanian economy needs to improve upon: "dealing with construction permits", "getting electricity", "registering property", "protecting minority investors", "paying taxes" and "enforcing contracts".

The Albania 2019 report of the European Commission sets out that Albania has made some progress and is moderately prepared in developing a functioning market economy. According to the report, economic growth increased further and unemployment decreased. There have been solid growth in exports, and banks experienced a reduction in the number of NPL and use of foreign currency. Business environment improved in some aspects, while the implementation of the justice reform is expected to contribute to strengthening the business environment and attracting investments. The report goes on to say that some progress was made on increasing labour market participation and the quality and effectiveness of labour market institutions and services, however employment rate and labour market participation remain low, while informal economy is still a significant job provider.

The OECD's Competitiveness in SEE: A Policy Outlook 2018, states increasing investment in education and competencies is critical to increasing human capital and improving labour productivity, as a long-term driver of economic competitiveness. Closing the gap between private sector needs and the skills provided by the education system is key to lowering unemployment rate, in particular among the youth (reported at 20.9% in July 2019). Activation policies need to support women, youth and vulnerable groups to find suitable employment and increase their employment opportunities.

According to the UNIDO Competitive Industrial Performance Index 2019, Albania ranks 109th out of 150 countries, going down by 5 places since last year. Nearly 80% of the manufacturing sector is low-tech, followed by resource-based, whereas high tech is nearly non-existent at 0.2%. There is a need to shift to high-value added manufacturing, particularly high tech-based production, which would increase the value added per capita of manufacturing translating into better living standards for citizens, eventually.

5.2. Summary of reform measures

The Economic Reform Programme 2020-2022, includes 20 structural reforms. Many of the reform measures are rolled over from the previous ERP; however, there are new reforms introduced in this cycle. These reform measures encapsulate some of the priorities of the current government, ranging from energy market liberalisation, diversification of energy sources, transport, broadband

connectivity, land consolidation, businesses environment, education and VET, employment and labour market, and social inclusion. Following, is a listing of the 19 structural reforms that will be elaborated in detail in section 5.3.

I. Energy and transport market reform
<i>Reform measure 01: Further liberalisation of the energy market</i>
<i>Reform measure 02: Diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements</i>
<i>Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana</i>
II. Agriculture, Industry and Services
<i>Reform measure 04: Defragmentation and consolidation of agricultural land</i>
<i>Reform measure 05: Reform on the Water and Waste Water Sector</i>
<i>Reform measure 06: Increasing service standards in the tourism sector</i>
III. Business environment and reduction of informal economy
<i>Reform measure 07: Property tax reform and establishment of a fiscal cadastre</i>
<i>Reform measure 08: Developing a legal framework in support of innovative start-ups</i>
<i>Reform measure 09: Improving access to finance for SMEs</i>
<i>Reform measure 10: Modernisation of retail payment instruments</i>
IV. Research, development and innovation and the digital economy
<i>Reform measure 11: Improve institutional capacity of the research and innovation system</i>
<i>Reform measure 12: Development of the broadband infrastructure for digital economy</i>
V. Trade related reforms
<i>Reform measure 13: Facilitating cross border movement of goods</i>
V. Education and Skills
<i>Reform measure 14: Finalisation of the pre-university curricular reform, training and hiring of teachers</i>
<i>Reform measure 15: Inclusive education</i>
<i>Reform measure 16: Modernisation of the early childhood education system financing</i>
<i>Reform measure 17: Improve the quality and coverage of VET while ensuring linkages with the labour market</i>
VI. Employment and labour market
<i>Reform measure 18: Improving the employability of the most vulnerable unemployed jobseekers through better targeted EPPs and employment services</i>
VII. Social protection and inclusion
<i>Reform measure 19: Strengthening social protection, and social inclusion measures</i>

The reform measures from the ERP 2019-2021 under the thematic area of “business environment and reduction of informal economy”, namely reform measure 7 “Reduce regulatory burden to businesses”, and reform measure 8 “Reduce red tape and increase the efficiency of the institutions offering services to citizens and entrepreneurs” have both been retired from ERP 2020-2022 because their main objective has been accomplished: reducing bureaucracy, reducing administrative burden and 100% transfer to online services. Starting 1 January 2020, 472 services will be offered online, that is 100% online services. In June 2020 the second bloc of services will be available online and until end 2020 all services will be made available online. The measures’ activities are considered functional day-to-day activities of the government authorities.

In addition, the reform measure 10 “Providing a single and transparent investment legal regime in the country” has been retired from the ERP since the draft law has been consolidated and finalised and is expected to pass to Parliament for adoption, soon. The reform measure is also considered mature.

5.3. Analysis by area and structural reform measures

5.3.1. Energy and transport market reform

a. Analysis of main obstacles

Energy is one of the strategic sectors in Albania and continues to be a priority of the government given the diversity of energy resources (water, wind, solar, oil, gas, etc.) that our country possesses, but which have so far not been fully exploited. The National Energy Strategy 2018 – 2030 states that the energy sector has the potential of being a sustainable source of growth for the country over the short to medium and long-term. Electricity imports (60% of the annual consumption/need) remain high and call for better utilisation of all potentially available energy sources. Basically, Albania has the potential for increasing the amount of electricity produced domestically and therefore decreasing necessary energy imports. Almost 100% of electricity produced in Albania is generated from HPP, but only 50% of Albania's hydropower potential is being utilised and electricity production is highly dependent on the volatility of the water flow in the Drini river cascade.

In the last 4 years Albania has seen huge improvements in the approach towards renewables. Historically the only policy of developing new production capacities has been in the Hydro Power sector and this has proven to be at huge environmental cost and actually has increased the dependency on climate and lowered security of supply.

Energy Policy of Albania include the promotion for the use of renewable energy sources beyond hydropower due to the significant potential our country has for photovoltaic and wind energy production, and its favourable geographical position, climate conditions and high intensity of the solar radiation for the use of solar energy. To achieve the objective, regulated tariff permits for these sources and methodologies for RES electricity purchase prices have been approved. Referred to the Law 7/2017 are established two types of financial support for RES from solar and wind:

Feed-in-Tariff "FiT" tariff is a legal financial support for the purchase price of electricity produced from renewable sources with limited generation capacity up to 2MW for solar and up to 3 MW for wind, in essence, an approved methodology by MIE, proposes to ERE the approval of the fixed price of sales of the energy from the producer to OSHEE for 15 years.

FiP tariff, "Feed-in-Premium", is legal financial support in the purchase price of electricity generated from renewable sources with generation capacity over 2MW. These electricity generating facilities are approved under a transparent bidding procedure approved with DCM No 349 of 12.06.2018 "*On the approval of support measures for the promotion of the use of electricity from renewable sources of sun and wind, as well as procedures for selecting projects for their benefit*".

Procedures for selecting projects that benefit from these measures are related to the announcement submitted by MIE setting the relevant deadlines, criteria, assessments the connection point, land ownership etc., through a PPA (Power Purchase Agreement) or a pre-purchase contract. The Energy that comes out of the auction purchased at a fixed price, for 15 years is the key points of the future pre-purchase contract. In this case, this contract is a Contract for Difference (CfD) and could be exercised in a liberalized electricity market.

Energy efficiency plays a major role in the National Energy Strategy, in particular, two short and medium term policies have been considered: increase of energy savings and reduction of greenhouse gas emissions. One of the main objectives was the diversification through construction of renewable energy sources and energy efficiency measures, to achieve the political and macroeconomic security of energy production.

Reducing Energy consumption by increasing energy efficiency is a highly successful way of meeting the key energy policy targets of security of supply, affordable costs of Energy services and environment sustainability.

Transport and residential sectors have the highest share in total final energy consumption (39% and 27% respectively). This indicates the need to improve energy efficiency policy and implement energy efficiency measures to utilize the high energy efficiency potential available in the country.

National Agency for Energy Efficiency which is a public, budget legal entity, responsible for implementing policies and promoting energy efficiency measures in Albania has started functioning since October 2018 but isn't yet equipped with the full staff.

Given the geographical location of the country, Albania's transport sector is strategically important for competitiveness and economic growth. Albania is ranked 109th out of 140 countries for transport infrastructure in the World Economic Forum's Global Competitiveness Report 2018, which is below its regional peers. The Albanian railway network operates below its actual capacity, due to lack of investment, maintenance operations, and outdated network. The unbundling of train operations from infrastructure management has not yet been achieved. Implementing legislation is under preparation for the establishment of relevant structures and agencies, in particular, the Railway Regulatory Authority. Maritime infrastructure is underdeveloped with inadequate capacity. The low quality of its transport infrastructure has affected the country's integration into regional and global supply chains and has a direct impact on the development of tourism and transit services. The proposed measure on transport sector will help curb these issues, as well as help increase economic growth and competitiveness of the country.

b. Reform measures

Reform measure 01: Further liberalisation of the energy market¹⁵

1. Description

In line with the measures introduced in previous ERPs, and with a view to the already achieved milestones, for the ERP 2020-2022 reporting period the focus will be on:

By increasing competition between energy suppliers, through legal and regulatory initiatives and increasing the security of supply, efficiency and productivity gains will lead to lower production costs and electricity prices.

2. Activities planned

Liberalisation of the electricity market (consumers in the free market).

By the end of 2019, all the consumers connected to the 35 kV grid, will not be supplied by the OSHEE S.A. as a Last Resort Supplier.

The unbundling of the distribution activity from the supply.

The effective unbundling of OSHEE will happen starting from 1 January 2020.

Establishment of the Albanian Power Exchange

Pursuant to point 2 of the DCM no. 609, dated 11.09.2019, by joint order of the minister responsible for energy and the minister exercising the rights of ownership over the TSO will set up the joint committee which will draw up the standard bidding procedure documents and evaluation of bids based on the bid qualification criteria. This process is ongoing.

Security of supply

- Implementation of the project Elbasan (Albania) - Bitola (RNM) 400 kV interconnection line: Lot 1 & Lot 2.
- Further reduction of distribution losses.
- Further increment of bill collection rates.

3. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Reduction of energy imports			
Increased national energy production capacity			
Increased investment in the network/grid			
Reduction in technical and non-technical losses in the network			
Increased bill collection			

¹⁵ Refer to Annex III, for more detailed elaboration on the reform measure

4. Expected impact on competitiveness

Strengthens the interconnection links with the regional electricity network, creating conditions for trade exchanges and unrestricted transit of electricity in the region. 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.

5. Estimated cost of the activities and the source of financing

There is no direct impact on the state budget but investments in the distribution/transmission grid and power generation are defined in the development programmes of companies (KESH, OST and OSHEE). In support of this point, the estimated cost for the completion of 400 kV Interconnection line Elbasan (Albania) – Bitola (RNM), Albania’s part is 70 million EUR *Financed in the amount of EUR 50 million from a foreign loan; EUR 15 million from a grant and EUR 5 million from OST sh.a (including VAT).*

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

This reform measure contributes to job employment and competitiveness and will also allow the decrease the cost of energy for consumers. This reform measure will indirectly contribute to job creation by ensuring reliable energy supply at reasonable price levels and therefore stimulating the general business environment and making the sector more attractive to investors. It is a gender-neutral reform measure.

7. Expected impact on the environment

Taking into account the type of the project, the impact on the environment is inconsiderable.

8. Potential risks

For the project “The 400 kV Interconnection line (Albania) - (RNM).

Risk	Probability (low, high)	Planned mitigating action
Obstacles may arise during expropriation, procurement and licencing process for the 400 kV interconnection line project between Albania and RNM, as well as technical impediments.	Medium	Better monitoring, evaluation and coordination with all stakeholders through all stages of the project. Raising relevance of the reform measure.
Lack of capacity and coordination among institutions	Low	
Delays in the adoption of sub-legal acts	Low	

Reform Measure 02: Diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements

1. Description

This reform measure aims to contribute on the diversification of the sources through the promotion of renewable energy production beyond hydropower and energy efficiency improvements, as an important tool of energy policies of Albania, for the increase of the security in energy supply, in a sustainable way and environmentally friendly.

The measure is in line with Energy Policy of Albania, National Strategy for Development and

Integration (2015-2020), National Energy Strategy (2018-2030), international agreements (Paris Agreement, UNFCCC etc.), the current National Action Plan for Renewable Energy Sources (2019-2020), and the National Energy Efficiency Action Plan of Albania (2017 – 2020).

Within this reform, further efforts has been taken to introduce new incentive schemes of financial support for RES as provided by Law 7/2017: “Feed-in-Tariff” for the purchase price of electricity produced from renewable sources up to 2MW and “Feed in Premium” for the purchase price of electricity generated from renewable sources with generation capacity over 2MW (Auctions procedure through Contracts for difference), for 15 years, according to the Law 7/2017. Financial support is provided only to reach 38% by 2020 as a direct commitment to subsidize clean energy versus imports. Currently, some private investments are on place.

Having a comprehensive legal and institutional framework in the sector is necessary to create favourable conditions (economic, technical and legal) for effectuation of energy services (ESCO companies), establishment of EE fund to be able to guarantee the achieved savings by applying energy efficiency measures, implementation of Performance Building Certificates etc.

Through this measure is aimed the implementation of EE improvements in public and private buildings, households, industry, transport etc. Building sector is expected to contribute largely to national energy savings increase, with 30 % reduction in the final energy consumption planned to be achieved within 2020. Few investments are ongoing, mostly IPPA projects and donors. State budget has a very modest contribution in this field

2. *Activities planned*

a. **Activities planned in 2020**

- Preparation and approval of secondary legislation based on the law no. 7/2017 on the promotion of the use of energy from renewable sources (MIE/AKBN/OSHEE/OST/ERE);
 - a. DCM “On the obligation to purchase electricity produced by priority electricity producers that do not benefit from the support scheme under the difference contract;
 - b. DCM “On the Methodology for calculating the electricity price for self-producers that benefit from the Net Metering Scheme”.
- Preparation and approval of secondary legislation based on the law on energy efficiency¹⁶ and the law on the energy performance in buildings¹⁷ (MIE/EBRD/AEE);
 - a. DCM “On the Approval of the National PEN Calculation Methodology”;
 - b. DCM “On Minimum PEN and Building Element Requirements”;
 - c. DCM “On the procedures and conditions of certification of energy performance in buildings”.
- Implementation of “Akernia PV Power Plant 100 MW” project (permits phase);
- Announcement of the bidding procedure to select the project developer for the construction of a 70MW photovoltaic plant, as part of the support measures, in the Karavasta (Lushnje - Fier) area and the construction of additional 70 MW capacity, which will not be part of supportive measures and the signing of the PPA Contract
- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities (MIE/AKBN);
- Pilot project on promotion of energy efficiency;

b. **Activities planned in 2021**

- Preparation and approval of secondary legislation based on the law on promotion of the use of energy from renewable sources (MIE/EBRD/OSHEE/OST/ERE);
 - a. DCM “On the Obligation to purchase electricity produced by priority electricity producers that do not benefit from the support scheme under the difference contract”;
 - b. DCM Project “On the Approval of Certificate Types and the Necessary Certification Criteria for the Installation of Small Biomass Boilers and Stoves, Solar PV, Thermal,

¹⁶ Law No.124/2015

¹⁷ Law No 116/2016

- Thermodynamic, shallow geothermal systems and Heat Pumps;
- c. DCM "On the methodology of calculating the share of energy from renewable sources in the national balance".
- Preparation and approval of secondary legislation based on the law on energy efficiency and the law on the energy performance in buildings (MIE/EBRD/AEE);
 - a. DCM "On approval of categories, conditions, qualification requirements for energy service companies";
 - b. DCM "On defining the categories of buildings, which will be subject to exclusion from the energy performance of buildings (PEN)";
 - c. DCM "On the Criteria and Procedures for the Selection and Quantity of Certificates to be Verified, and the Process of Supervising Energy Performance Certificates of Buildings.
 - Implementation of "Akernia PV Power Plant 100 MW" project (construction phase);
 - Implementation of the Project "Karavasta PV Power Plant 140MW" (Permits Phase)
 - Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities; (MIE/AKBN);
 - Pilot project on promotion of energy efficiency.
- c. Activities planned in 2022**
- Implementation of the Project "Karavasta PV Power Plant 140MW" (Construction Phase);
 - Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities; (MIE/AKBN);
 - Pilot project on promotion of energy efficiency;

3. Results indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2022)
% of electricity generated from PV solar plants and wind turbines	4%	40%	81%
Level of completion of secondary and regulatory legislation (%)	80 %	100%	-
Energy efficiency audit reports / Building Performance certificate	-	-	-

4. Expected impact on competitiveness

The energy sector is entering into an era of significant transformation due to increase penetration of renewables. Diversification of energy sources (renewables) will have direct positive impact on increasing competitiveness as a result of using new energy sources (solar and wind) that will increase the domestic production of the energy in Albania's market. As renewable power generation technologies have matured and their costs are decreased, there is a growing shift towards auctions. In Albanian market with limited volumes on offer, this has led to intense competition for projects and has resulted in falling costs of the energy prices (Akerni auction 59.9 Euro KWh).

Promotion and incentive measures on renewables sources will contribute in the increase of security of energy supply in the country and will forced developers to implement best practices in terms of project development, utilise newer innovative technology solutions, and generally reduce margins. The results of the energy saving and efficiency will have direct positive impact on increasing competitiveness by making possible the reduction of energy consumption and lower costs as a result of savings. Reduction of the emissions of CO₂ and the improvement of environment.

5. Estimated cost of activities and source of financing

To ensure the achievement of the national target of RES consumption (38%) in 2020, permits with regulated tariffs for these sources have been approved and methodologies for RES purchase prices have been adopted. The law preserves concession contracts for small hydropower plants previously

approved up to 15MW. Also as a need for diversification, are considered promoting other sources of renewable sources such as Eolic or PV. In any case, the Law provides the possibility of financial support with regulated feeds (feed-in-tariffs) and under the Feed-in-Premium Contract, both for existing and young priority producers, as well as new producers after the end of 2017 when contracts that were not subject to concession began to operate under a procedure approved by DCM no. 822 dated 7.10.2015 as amended. According to the NREAP, the total investment for RES sector with direct support from the private sector through giving permeations to build generation capacity with HPPs, PV, EOLIC and MNUs is calculated 538 Million Euro by 2020 based on the regulated tariffs and the purchase price approved by ERE for the year 2017. ERE is in process to approve the energy price for the years 2018 and 2019. The support that the budget will have for RES is calculated in 120 Million EUR by 2020 to achieve the national target of 38%. The investments required under state budget for the implementation of the 2nd and 3rd NEEAP are around 15,000 million ALL up to 2020. The cumulative final energy savings target of this Plan up to 2020 is of 123.7 ktoe (or 6.8%). The target can hardly be achieved cause of the secondary legislation on process.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Renewable sector will have direct social and economic impact by contributing in the improvement of employment opportunities. Renewable energy has increased the number of employees in a variety of capacities, including project development, construction, installation, operations and maintenance, transportation and logistics, financial, legal, and consulting services. In the industrial sector, highly qualified staff with appropriate professional qualifications (auditors and ESCO companies) will also be recruited, who will be continuously engaged in the monitoring of consumption and proposing of new measures for achieving savings. Gender equality is making steady progress in every field of economy as well as in renewables industry. The number of women in business roles exceeded that of women heading human resources, which signals a shift in the types of responsibilities women are now assuming. In Albania, there are no legal requirements that specifically target the participation of women on boards of companies. However, for several reasons it seems an accelerate rate at which companies increase participation by women in the field of renewables and Energy Efficiency.

7. Expected impact on the environment

GoA is taking actions to proceed with the preparation of the Integrated Strategy of Energy and Climate taking into account climate change adaptation. National climate change adaptation strategy is not prepared yet. Albania signed the Paris Agreement on 22 April 2016, entering a new era of the international climate policy process. Albania joined the United Nations Framework Convention on Climate Change (UNFCCC) in 1995 and the Kyoto Protocol in 2005 and has begun the process of changing the status of a developing country to a developed one, in the context of the UNFCCC. Most renewable energy sources produce little to no global warming emissions. Wind, solar, and hydroelectric systems generate electricity with no associated air pollution emissions. In addition, wind and solar energy require essentially no water to operate and thus do not pollute water resources or strain supplies. Energy production from renewable installation does not contribute in carbon gas emissions. Energy efficiency measures are an important tool to reduce CO2 emissions through the savings in all sectors, industry, residence, transport etc.

8. Potential risks

There are foreseen risks in the realisation of the reform through the implementing of projects and finalisation of the legislative framework in support of diversifying sources of energy supply in through the increase of the energy production from PV and wind, donations and budget approved, structures approved etc. There might be a general risk due to the necessary interplay between all relevant stakeholders. Delaying on the approval of secondary legislation; The lack of a financial instrument whereas projects will be implemented from the state budget and some from Foreign Financial Instruments (IPA Funds); Delays on the approval of PBC DCM; EEA not fully equipped

in staff; Delays on projects activities (Procurement phase etc.), Delays in permitting and construction phase of the PV and Wind projects.

Risk	Probability (low, high)	Planned mitigating action
Prolongation projects activities	medium	Regular monitoring of the implementation of the activities
Delay in adoption and approval of secondary legislation.	low	Using EU technical assistance for a better and efficient legislation approximation

Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana

1. Description

The measure is rolled over from previous ERPs and targets the rehabilitation of the 34.17 km railway line between the Tirana Public Transport Terminal (“PTT”) and the city of Durrës, and the construction of a new railway line, approximately 5 km in length and its interchange, connecting the Tirana-Durrës railway with the Tirana International Airport. It is part of the Western Balkans Core Network, which has been established as an indicative extension to the Trans-European Transport Networks (“TEN-T”) to the Western Balkans core railway network part of Railway Corridor VIII. The Project is also part of the Connectivity Agenda of the EU, which promotes transport connectivity in the Western Balkans as an important factor for the economic development, regional cooperation and EU integration.

The project is under consultation for hybrid trains, which allows DMU and EMU operations. It is related to the concept of electric traction / power supply is foreseen only in the maximum scenario (same as with Durrës-Elbasan-Pogradec railway line / North Macedonia railway lines). Future electrification of the railway line involves the construction of stable electric traction facilities, which need to include: Electric traction substations; Sectioning points; Sectioning points with neutral section; Overhead contact line.

2. Activities planned

a. Activities planned in 2020

During 2020, the measure will continue with the preparation of the demolition of the existing RW line and rehabilitation of works in the first section starting from Durrës to Tirana PTT (PIU HSH).

b. Activities planned in 2021

During 2021, rehabilitation of works will be carried out in the main section from Durrës to Tirana PTT and construction of the new railway line up to Tirana International Airport will start. The Project is foreseen to be finished and handed over at the end of 2021. (PIU HSH).

c. Activities planned in 2022

Construction activities are, on 2022 only foreseen in the Defects Liability Period, which will last 12 months. (PIU HSH).

3. Results indicators

Indicator	Baseline year 12/2018	Intermediate target 25 years (2022-2047)	Target year 2047
Outcome Indicator 1 - Million passengers/year	0.75881	1.1741	1.25
Outcome Indicator 2 - Tons/year	198,900	51,100	250,000
Outcome Indicator 3 (tons/year) - Reduced CO2 emissions vs cars	0	486	486

Project Specific indicator 1 - Car-km removed from road per year	0	8,700,000	8,700,000
Project Specific Indicator 2 - Truck-km removed from road per year	0	138,000	138,000
Cross sector indicator (# in millions) - Total number of beneficiaries	0	2,9	2,9

4. Expected impact on competitiveness

It is one of the priority strategic projects that will give prosperity and development to the citizens' transport facilities among the largest cities of Albania. The Tirana – Durrës railway project and the connection with TIA complete and fully achieve the multimodality of the infrastructure network between the two metropolises, creating an efficient network between the road infrastructure, the airport and the Port of Durrës. The project will have a great economic and social impact on cluster building in the growing region Tirana-Durrës. Providing the region with a well-functioning railway line will be an advantage, beneficial for both companies already settled as well as for potential local and foreign investors.

5. Estimated cost of the activities and the source of financing

The project has a total estimated cost of EUR 90.45 million. The contract includes works for the rehabilitation of the Tirana-Durres railway line and construction of the new rail link, as well as consultancy services for the supervision of works, for which the tendering processes are ongoing too. A sovereign loan of up to EUR 36.87 million for civil works (incl. contingencies) and in additions for strengthening institutional capacity through an EBRD grant 0.87 mn EUR.

A grant from WBIF-EU of EUR 35.435 million comprising of 32.935 mn EUR for civil works and 1.5 mn EUR for supervision and 1 mn EUR for ESIA implementation and project management and the tendering documentation amounting of 1,215 mn EUR totalling 36.65 mn EUR is already given for this important project. In addition, Land expropriation (1 mn EUR) and VAT (15.06 mn EUR) is part of the state budget (over EUR 16.06 million). The number of facilities from the project, are 39 houses and other warehouses in the technical Domestic Triangular Railroad Junction, as amended.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

New jobs are expected to be generated, both during construction of works as well as during operation of this railway line. It is estimated around 1,375 new jobs during the construction and an estimated 2,200 new jobs during the operation of this line for the RU who has benefitted the PSC in 15 years (whereas the maximum duration of rail passengers public service contracts is 15 years, which could extent to 50% in cases specified by the Rail Code). The expected impact and employment outcome might, inter alia, include the Maintenance working staff by the IM.

7. Expected impact on the environment

A simultaneous objective is to ensure a friendly environment, reducing road traffic jams between Durrës, Tirana and TIA, and contribute to the reduction of air pollution from road traffic in the Durrës-Tirana region. The provision of high-quality rail services, which is fundamental for the development of sustainable transport systems, will help reduce CO₂ emissions in line with national and EU transport policy targets.

8. Potential risks

Risk	Probability (Low/High)	Planned mitigating action
Urban territory and spatial planning and bottlenecks to permissions	Low	The proposed design gave special attention to the access of the neighbouring land uses and properties as well as to the pedestrian and road connection.

Inability to negotiate the settlements.	Low	Negotiated settlements are encouraged to help avoid expropriation and eliminate the need to use governmental authority to remove people forcibly.
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5.3.2. Agriculture, industry and services

a. Analysis of main obstacles

Agriculture

Agricultural land, its ownership and other related rights, is one of the most complicated and difficult issues in Albania affecting its economic development. Following the fall of the communist regime. The first laws approved after 1992 aimed at transferring state-owned land to private and to regulate the situation caused by the confiscation and nationalization of the former regime. Agricultural land was divided according to the Law no. 7501/1991 "On land", as amended, per capital and is therefore very fragmented, while compensation and restitution of immovable property to owners was at the centre of legal and political developments. According to the Statistical Yearbook of Albania, there are 352,315 family farms with an average size of land per family approx. 1.26 ha, divided on average into 4.7 plots, with an average size of 0.27 Ha/plot. Approximately 46% of farms are under 1 Ha, while 86% are under 2 Ha. The division of land presents challenges for the production and sale of agricultural products and has made it difficult to adopt and use automation in the sector. In the years that followed, laws and bylaws aimed at regulating the problems created by the legal framework adopted in the early 1990's.

The land allocation process ended in 2008 with the entry into force of the Law 9948/2008, but legal problems with land ownership have continued. The legal changes of recent years aimed at ending the process of transfer of ownership of agricultural land, agricultural families and their registration in the real estate registration offices¹⁸.

Services (Tourism)

Year after year, tourism is increasingly crystallizing as one of the main engines of the country's economic development. This is backed by latest statistics on the number of tourists visiting the country, which in 2018 accounted for 5,926,803 inbound tourists¹⁹. In addition, according to the World Travel and Tourism Council (WTTC) 2019 publication, during the year 2018, the tourism sector recorded a total contribution of \$ 4.274 billion, accounting for about 27.3% of GDP. Also in terms of employment, the total contribution of travel and tourism was about 286,700 jobs or 25.2% of total employment in Albania, while by 2029 this number is expected to grow to 315,900 jobs.

However, compared to other countries of the Mediterranean basin, tourism sector is still far from the potential represented by the country's natural, historical and cultural resources. One of the main challenges that tourism sector faces, according to the National Strategy for Sustainable Tourism Development 2019-2023, is the lack of standardization and classification system. In Albania, accommodation facilities and other providers of tourist services are not classified on the basis of standards for the services they provide. According to unofficial data, it is estimated that about 3000 accommodation structures are operating. In this context, the categorization and classification process has been prioritized as having a direct impact on the quality of services provided and will be carried out by the relevant structures at the Ministry of Tourism and the Environment through the proposed reform measure introduced in this ERP.

b. Reform measures

¹⁸ Law no. 171/2014 "On the Completion of Legal Procedures for the Transfer of Agricultural Land to Former Beneficiaries of Agricultural Land".

Law no. 172/2014 "On some additions and amendments to Law no. 9948, dated 07.07.2008, "On the examination of the legal validity of the creation of title deeds on agricultural land", as amended".

Law 111/2018 "On Cadastre".

¹⁹ Source: INSTAT

Reform measure 04: Consolidation and defragmentation of agricultural land

1. *Description*

Competitive and economically successful family-owned farms are the main objective of the national land consolidation strategy. A series of conditions are necessary in order to achieve land consolidation such as: a relevant legal framework; implementation of land consolidation projects; completion of the ownership transfer of agricultural land; and registration of agricultural land ownership titles. The latter two being the key pillars of the strategy to achieve land consolidation. To this end, the GoA has adopted a number of legal acts enabling farmers' documentation to be prepared at no cost, by the Municipalities, to be registered with the State Cadastre Agency (AShK). The Law on Cadastre regulates the public real estate registration service, the organization of the institution responsible for this service, the State Cadastre Agency and the manner of administering the Cadastre as a public register of real estate. The draft Law "On the Completion of the Transition Process for Ownership in the Republic of Albania" is in process, with the titles of ownership of agricultural land also part of it. Adoption of the legal framework resolves many property rights disputes. The registration process of the Land Acquisition Act is underway and will continue. By the end of 2019, approximately 20,000 cases were under treatment and untreated by municipalities that are in the process of completing the Land Acquisition Acts, in total about 450,000 Land Acquisition Acts have been given.

Priority will be given to Districts with developed and intensive agriculture, where small and fragmented parcels limit further development of agriculture as a primary activity in rural areas, if there is interest from farmers.

2. *Activities planned*

The "Sustainable Agricultural Land Management" program will continue throughout 2020 to 2022 and will be implemented by QTTB (Centre for the Transfer of Agricultural Technology) Fushë-Krujë. The designation of 60.000 ha building of "WEB GIS" software for 20 administrative units per year is conditional to the human capacities and budget planning for QTTB Fushë-Krujë.

a. **Activities planned in 2020**

- Land Information System (LIS) will create/digitalise information for about 50,000 ha of agricultural land in the districts of Lezhë, Shkodër and Dibër from QTTB Fushë-Krujë;
- Partial digitalization of agricultural land registers for 20 administrative units.

b. **Activities planned in 2021**

- LIS will create/digitalise information for about 60,000 ha of agricultural land in the districts of Tirana, Gjirokastër and Shkodër from QTTB Fushë-Krujë;
- Partial digitalization of agricultural land registers for 20 administrative units.

c. **Activities planned in 2022**

- LIS will create/digitalise information for about 70,000 ha of agricultural land in the districts of Elbasan, Gjirokastër, Korça, Kukës, and Tirana from QTTB Fushë-Krujë;
- Partial digitalization of agricultural land registers for 20 administrative units.

3. *Results indicators*

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Digitalisation of information on agricultural land in the Land Information System (LIS)	0	110,000	180,000
Digitalization of agricultural land register, administrative units	0	40	60

4. *Expected impact on competitiveness*

The land consolidation reform is a complex one 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 increased 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 automation of the agriculture sector, which means more jobs, and improved standard of living in rural areas.

During the early implementation of the program, the following results are expected to be achieved:

- Reduction of fragmentation in agricultural plots.
- Improved capacity for dealing with agricultural land management and administration.
- Increased land use.

This will enable making better use of economies of scale and therefore increase the competitiveness of farming.

5. Estimated cost of the activities and the source of financing

- EUR 910,931 from the state budget for “Registration and digitalisation of agricultural land” (2020, 2021, and 2022).
- EUR 242,915 for the integration in LIS of 50,000 ha of agricultural land and digitalization of agricultural land registers (2020)²⁰.
- EUR 161,943 for completion of GIS laboratory in QTTB Fushë-Krujë (2020).
- EUR 251,012 for the integration in LIS of 60,000 ha of agricultural land and digitalization of agricultural land registers (2021)²¹.
- EUR 255,061 for the integration in LIS of 70,000 ha of agricultural land and digitalization of agricultural land registers (2022)²².

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

It is expected that the land reform and the economic advantages it brings, will create new jobs and improve the quality of life in rural areas. Women will have equal rights to participate in land consolidation activities. Land consolidation projects will enable, protect and respect the property rights of all women, men and young people.

Budgetary support for the agricultural sector has been significantly increased, with the introduction of a National Support (subsidies) Scheme implemented by the Agricultural and Rural Development Agency (ARDA), as well as the IPARD II Program. In the process of applying and implementing the National Support Scheme, it is envisaged that women will be more favoured than men in the application process and in the financial amount of support (subsidies).

7. Expected impact on the environment

The reform measure is not expected to have an impact on the environment. Land consolidation is associated with processes that lead to a successful ecological system aimed at preserving nature and good use of agricultural land in an organized manner and appropriate agricultural practices, preserving land and its peculiarities from industrial and commercial activities.

8. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Inadequate financial resources to finalise the process	Medium	
Property rights disputes		
Scepticism among landowners and rural communities	Low	Awareness raising campaigns on the importance and benefits of the success of the reform

²⁰ The cost for 2020, is covered by the budget of MARD

²¹ The cost for 2021, is covered by the budget of MARD

²² The cost for 2022, is partially covered by the budget of MARD

Reform measure 05: Reform on the Water and Waste Water Sector

1. Description

To address challenges in the water sector, the GoA is reforming and water and wastewater sector. Since the reform has begun, there have been 39,000 new contracts signed and 80,000 new meters installed and 22 million Euros in revenue generated.

The reform measure on this sector covers water supply service and urban wastewater treatment and disposal, and will be based on the establishment of three main pillars, Good Governance, Effective Investments, and Action against Informality. The sector overview is oriented on: (i) reducing non-revenue water by 20%; (ii) providing 24/7 water access in coastal areas; (iii) improving water quality. The focus is to:

- Ensure efficient governance of the water and sanitation sector;
- Provide universal access to safe drinking water and sanitation;
- Achieve compliance with water pays for water principle through full cost recovery;
- Achieve compliance with the polluter pays principle;
- Provide water supply and sanitation services to consumers at an affordable price;
- Ensure public participation and transparency in water policy.

The reform will strive to reduce informality increase water service and sewerage coverage and improve wastewater treatment. In addition, there are two national objectives set for:

- Reducing non-revenue water by 20% until 2021;
- Increasing the hours of service in the coastal area aiming 22 hours by 2021.

2. Activities planned

a. Activities planned in 2020 (MIE, AKUM)

- Evaluation and optimization of performance contracts;
- Monitoring and implementation of the:
 - a. Law on water supply and sewerage services of urban waste waters;
 - b. National water supply and sewerage services sector strategy 2019 – 2030”;
 - c. Master plan for water supply and sewerage services of urban waste waters”;
- Water supply and water supply projects for coastal areas –I;
- Technical support for the implementation of the reform in the water supply and sewerage sector;
- Establishment and implementation of national testing and certification program in the water sector;
- Adoption of indicators and criteria, included in the performance contract, for service providers in the water supply and sewerage sector.

b. Activities planned in 2021 (MIE, AKUM)

- Continued evaluation and optimization of performance contracts;
- Implementation of national testing and certification program in the water and wastewater sector;
- Follow up of performance contract for service providers in the water supply and sewerage sector;
- Monitoring and implementation of the law on water supply and sewerage services of urban waste waters (MIE, AKUM, ERRU).

c. Activities planned in 2022 (MIE, AKUM)

- Continued evaluation and optimization of performance contracts;
- Implementation of national testing and certification program in the water and wastewater sector;
- Follow up of performance contract for service providers in the water supply and sewerage sector;
- Monitoring and implementation of the law on water supply and sewerage services of urban waste waters (MIE, AKUM, ERRU).

3. *Results indicators*

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Water Supply Coverage at National Level	84.6%	87.7%	96.4%
Water Supply Coverage for Urban Areas	94.0%	97%	98%
Water supply coverage for rural areas	60.0%	74%	94%
Sewer Coverage (National Level)	56.3%	62.5%	74.1%
Sewerage coverage for urban areas	79.5%	86%	96%
Sewerage coverage for rural areas	16%	28%	42%
Water Treatment Coverage Used by ITUP	12.0%	17%	33%
Continuity of Water Supply in Coastal Areas	13		
Continuity of Water Supply (hours / days)	13	20	24
Reduction of Non-Revenue Water	67%	50%	45%
Covering Total Operating Costs (TOC including Loan Settlement Expenses and Capital Reserve Funds) with Current Collections	66%	82%	100%
Water Supply Coverage in National Level	84.6%	87.7%	96.4%
Water Supply Coverage for Urban Areas	94.0%	97%	98%

For the action plan “Non-Revenue Water” the sector will perform as following:

- 75% of the losses are represented by 8 UK-s and will be the focus till 2021 to reduce non-revenue water by 16%;
- 8 utility companies serve about 2/3 of the country's population and account for the 75% of the national NRW:
 - 10 interventions have been identified as drivers to decrease non-revenue water to 150 million m³, of which five will yield the most results;
 - Bulk metering at all sources, pumping stations and storage reservoirs;
 - Meters for unmetered consumers;
 - Identification and replacement of all malfunctioning meters;
 - Prioritized meters for large consumers;
 - Update existing consumer database;
 - PDA to reduce billing errors;
 - Reduction of unauthorized use;
 - Standard operating procedures for the costumers billing database;
 - GIS mapping of the entire system;
 - Reduction of visual leaks.

4. *Expected impact on competitiveness*

The foreseen actions have several dimensions of impact on social and economy with different characters, such as: enforcing the consumer pays principle; providing a better climate for tourism; implementation of the law, reducing informality; providing citizens with the service they deserve; supporting health, safety and social responsibilities through governance; supporting financial stability and efficiency; supporting environmental protection.

5. *Estimated cost of the activities and the source of financing*

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

- 24/7 coast water supply;
- 20% reduction NRW - 60 million Euro
- Water supply - 80 million Euro
- WWTP - 280 million Euro

- Total - 360 million Euro (2018-2021)

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

It is a gender-neutral reform measure. It will have a direct effect on employment during the construction phase of the water and wastewater treatment facilities in the short term and may have a positive indirect effect on employment in such sectors as tourism, agriculture, etc.

The reform measure is expected to improve the wellbeing of citizens by providing water supply services and wastewater disposal and treatment in accordance with internationally recognized standards.

7. Expected impact on the environment

One of the Mission and Strategic Objectives of the National Water Supply and Sewerage services sector strategy 2019 – 2030 is to ensure quality collection, treatment and disposal to safeguard public health and in compliance with national environmental regulations.

8. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Delays due to lack of funds	Low	A careful planning on the central level
Delays due to work load	Medium	a team that has started working for the development of a detailed plan
Lack of political will	Low	A commitment of the highest levels of government, and inclusion of all possible partners in the sector

Reform measure 06: Increasing service standards in the tourism sector

1. Description

This reform aims to increase competitiveness by setting and implementing standards in the development of tourism activities. Specifically, the categorization process aims to divide the accommodation structures into categories by simultaneously evidencing the implementation of the mandatory conditions for each category. At the same time, the categorization process will enable the creation of a complete statistical database that will serve as a sound basis for policy formulation. The second activity aims to increase the quality of services and security in beach areas. In the meantime, agro tourism supports the development of sustainable tourism in rural areas through environmental protection, preservation of traditions and promotion of typical products of the area and in turn contributes to reducing poverty and increasing the well-being of host communities.

2. Activities planned

a. Activities planned in 2020

- Categorization of accommodation structures²³. Approx. 2000 accommodation structures are planned to be categorised until 2020. The process involves 3 stages: (1) self-declaration by the applicant; (2) review of the submitted applications by the Committee for Standardisation of Tourism Activities (3) on-site verification (case by case) of the

²³ In accordance with Law 93/2015 "On Tourism" and DCM no. 730/2016 "On the Approval of the Regulation on Classification of Accommodation Structures", any entity that will operate as an accommodation facility must be provided with a categorization certificate within 30 days of registering with the National Business Centre, while the entities currently operating as accommodation facilities must be subject to the categorization process by 31 December 2019, the deadline set out in the Order of the Minister of Tourism and the Environment for the approval of the regulation on the categorization of accommodation structures. Categorization, as part of the classification process, means that each subject must meet the mandatory criteria for the lowest level of the classification system, of the category for which it applies. There are 8 types of categories such as: hotel, motel, B&B, resort etc.

self-declaration data (MTE);

- Increasing service standards at beach station activities in coastal and lake areas involves improving the legal framework regarding the management system for beach spaces, as well as enhancing control over the implementation of standard (MTE and dependent agencies);
- Improving standards in structures that operate as agro-tourism structures²⁴. Certification process for an agro-tourism entity/structure involves: (1) application process; (2) case by case examination of applications by the evaluation committee for certification of agro tourism structures. In addition, new entities seeking to build a structure for the development of host tourism activity may be provided with a “Preliminary Certificate for Host Activities Certified as Agro tourism”, which is issued after prior approval of the project by the Evaluation Committee. (MTE).

b. Activities planned in 2021

- Categorization of accommodation structures;
- Increasing service standards at beach station activities in coastal and lake areas;
- Improving standards in structures that operate as agro-tourism structures.

c. Activities planned in 2022

- Categorization of accommodation structures;
- Increasing service standards at beach station activities in coastal and lake areas;
- Improving standards in structures that operate as agro-tourism structures.

3. Results indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2021)
Nb. of accommodation structures categorized	0	2000	2800 ²⁵
Nb. of licensed coastal tourism enterprises (beach contracts & diving guides)	0	N/A	N/A
Nb. of licensed agro-tourism structures	5	200% ²⁶	300%

4. Expected impact on competitiveness

This reform will contribute, among the others, to the reduction of informality, enable better quality products and services in the tourism sector, further encourage and promote competitiveness among businesses operating in the sector, strengthen human capacities in the tourism sector, diversify economic activities in rural areas, as well as data collection and processing capability.

5. Estimated cost of the activities and the source of financing

The source of financing is from state budget (no additional costs).

In addition, within categorization and certification as agro tourism processes, tourist entities receive fiscal incentives and in the case of agro tourism, they also receive financial support from the national government scheme and IPARD program.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Exercising different tourism activities within a framework of rules will have a direct impact on enhancing the quality of services provided to tourists in the long run. This translates into their satisfaction and desire to return, thus directly affecting the development of the tourism sector and its

²⁴ In accordance with DCM no. 22/2018 “On Approval of Criteria for Certification of Agro-tourism Activity”, any entity seeking to provide hosting activities certified as “Agro-tourism” shall meet the criteria set forth in this Decision. Only entities certified under this decision have the right to use the designation “Agro tourism” in their commercial name or in their premises

²⁵ 800 new structures planned to be categorised in 2021

²⁶ Compared to baseline year of 2019.

contribution on the economy. This in turn translates into increased incomes for local residents of tourist areas, more employment opportunities for them, including women and people with lower qualifications.

7. *Expected impact on the environment*

The establishment of rules and standards in general and in particular those related to hygiene and cleanliness, and further guaranteeing their respect during the conduct of various tourism activities aims at preserving and protecting the environment. On the other hand, tourism development implies a greater influx of tourists visiting tourist areas at certain times of the year such as the tourist season, negatively affecting the environment. In order to mitigate the negative impact on the environment, a number of measures are intended such as: wastewater treatment; implementing policies to minimize pollution from urban waste by separation at source for recycling, composting and dumping; collection and disposal of urban waste at approved landfills etc.

8. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Insufficient administrative capacities to process the high flow of applications received.	Medium	Good coordination of the work in each stage of the process in order to avoid such situations.
Administrative barriers that could result in extended deadlines for the completion of specific tasks		

5.3.3. Business environment and reduction of the informal economy

a. *Analysis of main obstacles*

Further improving the quality of regulations affecting the daily business operations of SMEs remains a priority of the GoA, as part of its efforts to access the EU common market. Albania showed an improvement in the WB Doing Business 2017 report, ranking 58th out of 190 economies, which reflect that the latest reforms undertaken by the government are on the right track, especially with regard to reducing administrative burden to businesses. Throughout 2018-2019, the GoA improved the business environment mainly on issues dealing with getting electricity, which is reflected in the higher ranking achieved for these indicators in the Doing Business 2020 report.

Access to finance for SMEs is a long-lasting constrain, hindered by lack of adequate traditional collateral owned by SMEs and lack of strategies and financial instruments by the banking system. The system faces limited funding for companies, high loan interest rates, limited regional coverage in rural areas, etc. Limited access to finance for SME is a binding constraint to growth and undermines the competitiveness of SMEs to integrate in regional and European markets.

While several government programs are in place to support MSMEs financing, these are relatively small and with limited impact. The Government has set up and runs several financial programs (direct subsidies or other types of support) through various governmental agencies, such as the Agency for Research, Technology and Innovation and the Albanian Investment Development Agency. Limited funds, lack of visibility, and poor coordination of these programs have yielded limited results.

A number of donor-funded interventions also aim to support MSMEs' access to finance, but they appear to lack coordination among donors and target different areas and sectors. Funding and support for MSMEs varies widely by its amount and nature, with both gaps and overlaps and only very limited joint and coordinated focus on priority sectors.

Non-bank financing remains very limited. Microcredit, leasing and factoring are available and backed by well-developed legal frameworks, but penetration is low. Microcredit, including from 13 savings and loan associations, is by far the most common type of financing, accounting for two-thirds of all loans by non-bank financial institutions.

The Government is committed to improve MSME financing, which will in turn increase their contribution to economic growth; however, better coordination and structure is needed to facilitate implementation of initiatives and regulatory reforms. There is a piecemeal approach to MSME access to finance development and coordination of donor driven projects. In addition to policy initiatives, various MSME funding facilities that vary in sizes, conditions of financing, and focus have been established. However, these initiatives are fairly small and could benefit from better targeting. There is a lack of resources and capacity to support development of MSMEs is scattered through various agencies and public institutions without proper coordination. An organized, transparent, and accountable public stakeholder coordination structure is needed for access to finance activities across all major sectors of the economy.

Differences between the existing legal definition of MSMEs and the definitions used by banks makes it difficult for the Bank of Albania and other relevant government authorities to gather and analyse lending data in a consistent manner. The lack of standardization, although not unique to Albania, limits the ability to efficiently process and analyse data on MSMEs, including data on lending to MSMEs and MSMEs access to finance in general. This in turn undermines the prioritization and implementation of policies that would successfully target different needs of MSMEs depending on the stage of their development.

In Albania, there is currently no innovative start-up strategy at the national level and the legislation in force has no specific law on innovative start-ups. Moreover, the legal framework does not contain to date a clear legal definition of what entity should be considered as start-up.

The old property tax system based on fixed prices poses risks and high costs for companies considering that real estate is one of the main factors for their economic activity. Moreover, a weak performance of tax collection and lack of a national property tax register, led to the strong need to shift to a value-based property tax system.

Reforming the property tax system by establishing a market-price-based regime and establishing the fiscal cadastre will have a positive impact on the business environment. It will come with economic and fiscal benefits and significantly increase legal certainty and predictability. Until now a firm has to take into account risks stemming from insecurity about the legal state of real estate property, which is hampering the business performance and climate.

b. Reform measures

Reform measure 07: Property tax reform and establishment of a fiscal cadastre

1. Description

In order to lay the information basis for the new property tax, a fiscal cadastre is established and a new methodology will be implemented on a value-based property tax system. The municipalities are continuously working on the entering of relevant data into the system. The purpose of the cadastre will be to consolidate and improve the quality of all existing taxation-related data on buildings and owner/occupants, and to calculate the annual tax obligation associated with each property. For each property a unique property identification number will be assigned and either the legal owner (if known) or the occupant, along with the national ID number for that person or entity, will be registered. The unit responsible for the fiscal cadastre will not have the authority to resolve conflicting legal claims or verify ownership.

The activities included in the ERP 2018-2020 have changed due to provision of international assistance for the establishment of fiscal cadastre through a fully funded project that initiated in 2018. However, the previous activities were not been removed, but have been reorganized as part of the revision of the project's activities.

2. Activities planned

a. Activities planned in 2020²⁷

²⁷ The activities included in ERP 2018-2020 have changed due to provision of international assistance for the establishment of fiscal cadastre through a fully funded project that initiated in 2018. However, the previous activities have not been removed but have been

- **Implement a market value-based property taxation.** Apply market value approach to all 61 municipalities.
 - **Draft new law on property tax.** The existing legal framework shall be in force for a transitory period, until a new and complete law on property tax is approved.
- b. Activities planned in 2021**
- **Transition phase.** Register process transitioned to municipalities.
- c. Activities planned in 2022²⁸**

3. *Results indicators*

Indicator	Baseline (2017)	Intermediate target (2019)	Target (2020)
% registered buildings in the fiscal cadastre register	0	40%	≥60%
No. of municipalities trained	0	61	61

4. *Expected impact on competitiveness*

The measure will lead to a better functioning property market. The economy will be influenced through multiple ways:

- i) A clear-cut property tax is a predictable, transparent and sustainable way for the municipalities to raise funds and thus an instrument for sustainable municipality funding. The increased property tax revenues will be invested in better municipal services.
- ii) An official taxable value on buildings will contribute to a more transparent real estate market, which makes it easier for investors to partake; increased transparency in the property market leading to fair competition in the market.
- iii) An appraised property value confirmed by the state, will be used as the base for credit marketing and will decrease the need of single-evaluation of the properties. As well, development of the tourism sector, infrastructural improvements, and access to finance will be positively influenced. The size of the property market value is the key to achieve the full base of taxpayers.

5. *Estimated cost of the activities and the source of financing*

This measure will be implemented through a grant-funded project. The estimated cost for this measure is EUR 3.5 million (split into EUR 1.2 mn for the first year, EUR 1.3 mn in the second year, and EUR 1 mn for third year).

6. *Expected impact on social outcomes, such as employment, poverty reduction, equality and gender*

The establishment of the fiscal cadastre per se, does not foresee direct impact on social outcomes, such as employment, poverty reduction, national employment and gender. The only direct impact on employment is the recruitment of staff in new agencies at the central and local government level. In the long term, the measure is expected to stimulate FDI, translated more businesses being established, which in turn means more employment opportunities. In terms of gender, it can be said that in the cadastre system the number of female owners has already increased.

7. *Expected impact on the environment*

The establishment of the fiscal cadastre does not foresee a direct impact on the environment.

8. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action

reorganized as part of projects activities. Comparing with ERP 2019-2022, an additional activity is introduced recently for 2020, therefore it is firstly included in the ERP 2020-2022

²⁸ No activities are planned for 2022; however, if there are revisions or new activities are considered for this year, they will be reflected in the future

Inaccuracy of existing data on the buildings	High	All buildings will be registered in the system. 586,164 out of 1,500,000 buildings have already been registered, containing information on the owner (possessor) and surface. General Directorate of Property Tax already possess some data from ALUIZNI and IPRO but the quality of data is very poor. However, the General Directorate of Property Tax in the Ministry of Finance and Economy is well aware of data quality and is working in order to identify the right tools to make this data available to the municipalities.
Unavailability of sufficient funds / financial sources	Low	This risk is mitigated from the international assistance. SIDA has provide their technical assistance and financial support, through a grant for the IT system development.
Lack of resources in the municipalities	Low	Resources in the municipalities must be available to handle registrations, information and complaints right after the taxation starts. Increasing the efficiency of property tax administration will mitigate this risk, but still, steps have to be taken by MFE and municipalities to ensure the right staffing.

Reform measure 08: Developing a legal framework in support of innovative start-ups

1. *Description*

In recent years, the role of innovative start-ups has steadily gained importance as a driving force for economic and social development towards a knowledge-based society. The success of start-up companies and their potential to scale-up depends on a variety of factors.

The policy framework for innovation in Albania is spread across three documents: the National Strategy on Science, Technology and Innovation (2017-2022); the Business and Investment Development Strategy (2014-2020); and the Innovation Action Plan of the Policy Framework for Innovation (2017-2022) which was prepared in co-operation with the OECD.

The GoA is commitment to creating a favourable legal framework for start-ups and is currently being supported through a grant-funded project²⁹, in order to gain a holistic understanding of the needed legislative environment for start-ups and on the possible ways to create a supportive policy framework. The objective/outcome of the project is to improve the innovative ecosystem and boost start-ups creation in Albania.

2. *Activities planned*

d. **Activities planned in 2020**³⁰

- Initiate public consultation with stakeholders for drafting the start-up law;
- Drafting of the law on start-ups.

e. **Activities planned in 2021**

- Adoption of the law on start-ups;
- Drafting and adoption of bylaws based on the adopted law;

²⁹ EU-funded project

³⁰ The activities included in ERP 2018-2020 have changed due to provision of international assistance for the establishment of fiscal cadastre through a fully funded project that initiated in 2018. However, the previous activities have not been removed but have been reorganized as part of projects activities. Comparing with ERP 2019-2022, an additional activity is introduced recently for 2020, therefore it is firstly included in the ERP 2020-2022

- Drafting and adoption of the policy framework and supportive schemes with focus on innovative product or service and new business model.

f. Activities planned in 2022

- Implementation of the new law and support schemes.

3. Results indicators

Indicator	Baseline	Intermediate target	Target
Adoption of the new law “On innovative start-ups” and the bylaws	0	in place (2021)	Implementation (2022)
Adoption of the policy framework and supporting schemes on start-ups	0	in place (2021)	Implementation (2022)
At least two calls for applications for supporting schemes on start-ups and at least 5 start-up financed by the calls	0	1 call, 2 start ups financed	2 calls, 5 start ups financed

4. Expected impact on competitiveness

Entrepreneurship and start-up policies can encourage the emergence and growth of start-up companies by providing an entrepreneurship-friendly environment (e.g. through easing the financial burdens for start-ups). With their focus on innovative business ideas and services, start-ups represent a specific segment of the economy which has the potential to determine the success and well-being of the economy in the long run. Start-ups bring new interventions and adapt existing technologies to the market and therefore create possibilities for the commercialization of scientific research outputs.

5. Estimated cost of the activities and the source of financing

Cost of activities and source of financing are detailed in table 10a and table 10b, respectively.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Start-ups create jobs in future-oriented sectors of the economy and bring a proactive impulse to the economy through their competitive and dynamic way of operating. This law and other programmes are also particularly important for the development for female entrepreneurship, as they usually ease the requirements with regard to security instruments when approving financing, which is important for women entrepreneurs since they generally own less property.

7. Expected impact on the environment

The measure does not foresee direct impact on the environment.

8. Potential risks

There is the potential lack of cooperation and coordination among competent government bodies and nongovernmental organizations.

The Albanian start-up and innovation ecosystem is at a very early stage of its development so this status comes along with a couple of challenges (capacity building, staff etc.).

Reform measure 09: Improving access to finance for SMEs

1. Description

SMEs in Albania are significant contributors to the economy. In 2017 SMEs created 80.3 % of all employment, corresponding to almost four out of five Albanian jobs, and generated more than two thirds (68.3%) of total value added. In terms of SME employment, wholesale and retail trade was the fastest growing sector in Albania in 2016-2017, generating growth of 6.6%, significantly exceeding the average growth rate of 1.5 % for EU SMEs in the same sector. While the number of the persons

employed has increased by almost 50% since 2012, the increase of the value added by SMEs has been much smaller at about 13%.

The reform aims to implement pro-active policies to better respond to competition forces in regional markets and beyond. It will be implemented through the development of a legal and institutional framework, as well as through cooperation with financial institutions.

The goal of this reform is to provide adequate access to finance for each development stage of SMEs by improving the financial and capital market, creating conditions for the functioning and expansion of different financial instruments that were not present in the domestic market (guarantee schemes etc.), optimizing public development financing and improving the level of information and skills of SMEs to access different types of financing.

2. *Activities planned*

a. **Activities planned in 2020**

- Establishment of a dedicated unit within the MOFE to promote SMEs development;
- Conducting appropriate analysis for establishment of a centralized information platform for the financial resources from donors, private and public sectors - as an important tool for SMEs;
- Study for potential implementation of credit guarantee schemes, based on international best practices to facilitate lending to MSMEs.

b. **Activities planned in 2021**

- Establishment of a centralized information platform for the financial resources from donors, private and public sectors- accessible by SME;
- Drafting and public consultation with all the actors regarding adoption of Partial Credit Guarantee Schemes;

c. **Activities planned in 2022**

- Approval of the legal acts regarding Partial Credit Guarantee Schemes.

3. *Results indicators*

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Adoption of the new structure in MFE	0	June 2020	December 2020
The number of users of the centralized information platform	0	1000	5000
Adoption of the legal acts for partial guarantee schemes	not applicable	not applicable	In place
Increased rate of SMEs benefiting from increased access to finance	0	5%	10%

4. *Expected impact on competitiveness*

Improved access to finance for SMEs and a direct impact on higher competitiveness of that part of the economy which has the largest contribution to GDP and employment in the non-financial sector. Investment growth driven by better access to finance will have a positive impact on capacity expansion, technological modernization of production, productivity growth and introduction of new, innovative products and services by SMEs.

5. *Estimated cost of the activities and the source of financing*

Cost of activities and source of financing are detailed in table 10a and table 10b of Annex 1.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Introduction of new financial instruments for starting a business and development of SMEs will contribute directly to job creation and self-employment. The reform is particularly important because it will help empower women entrepreneurship by facilitating communication channels towards financing, which is important for women entrepreneurs.

7. Expected impact on the environment

This measure is not foreseen to have an impact on the environment.

8. Potential risks

There are potential risks associated with the implementation of the reform measure such a macroeconomic and fiscal instability, and low inter institutional cooperation and coordination between government and non-government organisations.

Reform measure 10: Modernisation of retail payment instruments

1. Description

The overarching objective of the National Retail Payments Strategy is to promote the intensive use of modern retail payment instruments across the whole country, with the goal of achieving 10 cashless payments per capita by end-2022. Broadening access to transaction accounts is a necessary condition to achieve the overarching objective. In this regard, Albania aims at achieving an adult account ownership ratio of 70% by 2022.

- 1) Improvements of legal and regulatory framework
 - a) The approval of the draft Law "On payment services" which transposes the revised EU Directive 2015/2366 by the end of 2019.
 - b) Drafting a legal act that will transpose the European Union directive "On the payment account" within 2021.
- 2) Infrastructure and technological improvements like:
 - a. Possibility of implementing a national card-processing platform (SWITCH)/'instant payment'.
 - b. Implementation of interbank direct debit schemes.
 - c. Establishing a system for the settlement euro transfers for domestic payments.
 - d. Operationalizing the category of "indirect participation" in the AECH.

2. Activities planned

a. Activities planned in 2020

- Entering into force of the Law "On payment services" which transposes the revised EU Directive 2015/2366, and drafting and approval of bylaws for this Law;
- Drafting the legal act that will transpose the European Union directive "On the payment account".
- Approval of changes in regulation and infrastructure for the interbank direct debit schemes.
- Implementation of the system for the settlement euro transfers for domestic payments.
- Approval of changes in regulation and infrastructure for "indirect participation" in the AECH.
- Feasibility study for implementing a national card-processing platform (SWITCH) / 'instant payment'.

b. Activities planned in 2021

- Entering into force of the legal act that transposes the European Union directive "On the payment account".
- TORs and project for implementing a national card-processing platform (SWITCH) / 'instant payment'

c. Activities planned in 2022

- Implementing a national card-processing platform (SWITCH) / 'instant payment'

3. Results indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2022)
Entering into force of the Law "On payment services"	Approval of Law(Q1 2020	The creation of sublegal acts enforcing the Law	Final implementation of the Law
Drafting a legal act that will transpose the European Union directive "On the payment account" within 2021.	Drafting of the Law (2020)	Approval of the Law (2021)	Implementation of the Law- 2021-2022
Approval of changes in regulation and infrastructure for the interbank direct debit schemes.			2020
Approval of changes in regulation and infrastructure for "indirect participation" in the AECH			
Feasibility study for implementing a national card-processing platform (SWITCH) / 'instant payment'.	Feasibility Study (2020)	ToR (2021)	Implementation on 2022

4. Expected impact on competitiveness

The draft Law "On Payment Services" is evaluated to increase competition in the payment service market through:

Creating an appropriate level playing field for non-bank financial institutions to offered innovative electronic payment services through: a) allowing them to open payment accounts and offering electronic payments (which in actual legislation is not permitted); creating a licencing and supervision of the institutions offering payments services proportionate to the risk that these institutions bears; c) guarantying their access to payment systems; d) quarantining access to TPP (account information service providers and account information payment services providers) to clients account information after the explicit consent of the client through the creation of Open Banking infrastructure; and e) the creation of prudential framework for consumer protection.

Drafting the legal act that will transpose the European Union directive "On the payment account".

Is expected to increase competition through enhancing further the transparency of the services offered in the market and by increasing movability of clients through establishing more cost effective switching procedures between deferent payments service providers.

- Approval of changes in regulation and infrastructure for "indirect participation" in the AECH-enhance the level playing field between banks and non-bank financial institutions which offer payments services.
- Possibility of implementing a national card-processing platform (SWITCH)/'instant payment'. Increasing competition for processing costs of card payments and also increasing completion between card payments and electronic credit transfers

5. Estimated cost of the activities and the source of financing

The drafting process of the "Law on Payment Services" and its sublegal acts, as well as the draft law that will transpose the European Union directive "On the payment account" is financed by SECO. The infrastructural development is going to be covered by Bank of Albania (with the exception of national SWITCH which is going to be an interbank consortium).

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Taking into account that the draft law on “Payment Services” fosters the involvement of fintech companies in the financial sphere, is evaluated that the entrance of new payment service providers is going to also enhance employment.

On the other hand, is broadly accepted that financial inclusion is an important component on reducing poverty. To this this regard, taking in account that the strategy has as overarching objective increasing the percentage of population which have access to finance from 40% to 70%, is evaluated that the strategy has a direct impact in poverty reduction.

7. Expected impact on the environment

The strategy is evaluated to promote the electronic payments versus paper based one. To this extend is evaluated that the new payments services is going to promote more environment-friendly policies.

8. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Failure to approve laws and regulations at the appropriate level on the planned schedule for approval and/or approval of other laws indirectly related that impede or cannibalise the aimed objectives of listed planned law/regulative changes.	Low	Coordination between different institutions through National Payment Systems Committee.
Lack of involvement of all stakeholders that contribute to drafting, implementing and executing changes in laws/regulations and in infrastructures planned to be implemented.	Low	Coordination between different institutions through National Payment Systems Committee.
Lack or limited know-how and expertise to apply changes in law/regulation and/or technical implementations of foreseen infrastructural improvements.	Low	Bank of Albania is working intensively to have the appropriate expertise form World Bank and EU countries' Central Banks.

5.3.4. Research, development and innovation and the digital economy

a. *Analysis of main obstacles*

The telecom market ICT sector is one of the important economic sectors in the country. Digital infrastructure and broadband is crucial for all other developments in digital integration and it impacts all sectors of the economy. Digital infrastructure is a precondition for developments of digital economy in innovative industry, e-government, e-health, provision of interoperable services, provision of cross border services etc. The development of broadband networks asks for huge investments and the private sector is the main contributor. In Albania, the telecommunication market is fully opened for competition since 2008. The mobile broadband is provided widely based on LTE. There are a great number of ISPs in the market offering broadband connections based on fixed network. Triple/quarter play services voice, Internet, TV are provided since years. The Internet users and fixed broadband subscriptions in Albania are increased yearly by 10-15%. The total number of fixed broadband subscriptions was 361,000 by the end of 2018. However, the fixed broadband penetration remains in very low levels compared with other countries in the region and with EU.

Overall, the broadband situation in Albania is as follows:

- There is a huge gap of fixed penetration between urban and rural areas;
- Fixed penetration is low, approximately 40% based on households;

- Mobile broadband penetration, based on LTE coverage for population is over 85%;
- Mobile broadband users by the end of 2018 was over 1.8 million;

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 the country's remote areas.

The European Commission 2019 Report notices also that Albania *should adopt the necessary amendments to the law on electronic communication, in alignment with the new European electronic Communication Code, and prepare an action plan for the digital agenda*. Revision of the existing legal framework needs to consider better regulation of the provision of universal service for electronic communications including broadband coverage based on EU rules for state aid in broadband.

Research and innovation environment in Albania is still facing challenges that slow down its transformation into a sustainable pillar for economic development. Meanwhile, the strategic and legal framework continue to be improved to facilitate such a transformation in the next few years. One of the most important steps taken in 2017 was the approval of the National Strategy for Science, Technology, and Innovation (NSTTI) 2017-2022.

Albania is in the process of adapting a Smart Specialization Strategy (S3). In April 2018 a working group was established by the Minister of Education, Sport and Youth. The WG has designed a Road Map of activities that will be undertaken until its final approval. The Albanian digital single market represents a new approach to boost growth and the measures to achieve it are part of Albania Digital Agenda 2015-2020. A new draft law "on research" has been finalized and is planned to be presented in the parliament.

b. Reform measures

Reform measure 11: Improve institutional capacity of the research and innovation system

1. Description

The measure is aligned with the Strategy on Science, Technology and Innovation 2017-2022; Government Program 2017-2020; National Plan for European Integration 2017-2021 "Chapter 25 "Science and Scientific Research"; SEE 2020. Its purpose is to develop the research and innovation infrastructure, to activate public and private financial resources that support scientific research and promote scientific researchers. Furthermore, it aims to increase collaboration between researchers and the business community supporting the job creation and economic development of the country. The measure includes legal initiatives that will be developed during the years 2020-2022; activities related to the improvement of research infrastructure; promotion activities of European Scientific programs; investments to support scientific research closely related to the economic development of the country; human capital promotion activities, etc.

2. Activities planned

a. Activities planned in 2020

- Increasing capacities of National Agency for Scientific Research and Innovation through establishment of bilateral and multilateral agreements/projects;
- Establishment of National Coordination Structures for Scientific Research (An inter-institutional structure);
- NASRI in collaboration with INSTAT and MFE will collect and process data for GERD indicator measurement;
- Research infrastructures will continue to be supported upon monitoring their performance;
- Continue with drafting S3.

b. Activities planned in 2021

- Finalise S3 and ensure the starting of its implementation;
- Find partners for innovation; explore new opportunities within cooperation between

Universities and business;

- Research infrastructures will continue to be supported upon monitoring their performance.

c. Activities planned in 2022

- In addition to research projects, those of innovation will be supported and funded as they have the at core the collaboration between Science (Universities) and Business, promoting new models such as hackathons and triple-helix (EU for innovation);
- Preparation of necessary guidelines and templates for funding innovation projects. Ensure their approval from Board of Administration.

3. Results indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2021)	Target (2022)
The number of research and innovation projects founded	15 NPSR 12 Infrastructure	20/20	25/25	30/30
% of research and innovation fund vis a vis GDP (GERD)	0.04 ³¹	0.1	0.1	0.15
Number of bilateral and multilateral agreements/projects established	x	4+	5+	6+

4. Expected impact on competitiveness (not relevant for the area of social protection and inclusion)

Strengthening of institutional research capacities will contribute toward improving participation in Horizon 2020 programmes and will strengthen links between academia, business and government in the mid to long term. Feeding business with research and innovation will lead to producing innovative products at these infrastructures and create added value through commercialization of these products.

5. Estimated cost of the activities and the source of financing

Total budget of the research program in draft Midterm Planning Budget

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

It is aimed to improve the financial and managerial capacities of the research infrastructures at universities where qualified researchers will cooperate with business community for new innovative business that promote job creation.

7. Expected impact on the environment

The measure is neutral in terms of environmental impact.

8. Potential risks

Challenges to implementation of the above-mentioned measures in the area of research and innovation include difficulties in inter-institutional coordination as well as budget constraints.

Risk	Probability (low, high)	Planned mitigating action
Budget constraints	Low	According to the midterm budget framework, the funds planned for scientific research infrastructure are increased for upcoming three years

³¹ It is supposed that the GERD indicator is calculated properly

Reform measure 12: Development of the broadband infrastructure for digital economy

1. Description

Development of the broadband Infrastructure is one of the important goals of this regional strategy. Broadband development is in line with EU Digital Agenda, part of priorities of SEE-2020 Strategy under smart growth pillar and also part of the MAP-REA of WB6 endorsed in Trieste Summit on 12th of July 2017, under the digital integration pillar. In line with SEE 2020 objectives, EU integration process and national program a number of measures are forecasted. The proposed reform measure will increase the investment, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as will increase the competition. In addition there are some social and environmental benefits through:

- better broadband coverage which means social and territorial cohesion,
- increase synergies across sectors e.g. smart grids and intelligent transport systems,
- less duplication of civil works, less digging or nuisance
- Improve the business environment through transparency and simple procedures for building permits etc.

The development of broadband infrastructure is going in parallel with a significant development in e-government, e-services, digitalization of ICT systems in public administration which is an important component for ICT ecosystem and digital economy. This part of investment is related with demand side of broadband.

The plan to implement this reform measure during the coming years will include: (i) Review of the action plan of National Broadband Plan (NBP); (ii) Drafting of the Feasibility Study and Cost-benefit analysis for Regional Broadband Infrastructure Development; (iii) Establishment/nominate a national Broadband Competent Office; (iv) Launch pilot projects for development of broadband infrastructure in rural and remote areas; (v) Establishment of synergies with utility projects: follow up recommendations of Balkan; (vi) Digital Highway study.

2. Activities planned

a. Activities planned in 2020

- Approval of new National Broadband Plan;
- Complete the Feasibility Study and Cost-benefit analysis for Regional Broadband Infrastructure Development;
- Adoption of 5G roadmap for Albania

b. Activities planned in 2021

- Establishment of national Broadband Competent Office;
- Launch pilot project for development of broadband infrastructure in Zone 1 (rural and remote/tourism areas in north part of Albania (Shkodër, Kukës, Tropojë, Dibër);
- Adoption of the new law on electronic communications, in line with the new European Electronic Communication Code approved by the EU in 2018

c. Activities planned in 2022

- Launch pilot projects for development of broadband infrastructure in Zone 2 (rural and remote/tourism areas. To be decided based on results of Feasibility Study)

3. Results indicators

Indicator	Baseline	Target
Increase penetration of fixed broadband, including rural areas	38%	45%
Increase number of public schools and health facilities with broadband connection – average internet bandwidth	8 Mbps	20 Mbps
Increase broadband connection for SME		30 Mbps
Increase percentage of broadband connections		>30 Mbps

4. Expected impact on competitiveness

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. The development of rural and remote areas through usage of ICT for businesses and farmers, and the resultant access to knowledge and state of art of technological methods as part of this reform are expected to improve the competitiveness in these areas. 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.

5. Estimated cost of the activities and the source of financing

a. Approval of New National Broadband Plan

- EUR 5500 from the state budget for the review of the action plan part of the National Broadband Plan.
- Support from ITU with an expert for drafting the National Broadband Plan;

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

- EUR 520000 from WBIF grant.
- 25000 Euro MIE budget

c. Budget for activities under new action plan of Digital Agenda (digitalization of services/ICT systems – demand side of Broadband ecosystem) for 2019-2022: **is approximately 26 mn Euros as State Budget and another 12.5 million Euros Donors/IPA/others funds** (is expected to be approved soon by DCM);

The budgetary impact for the National Broadband Plan review is only administrative cost of staff. The cost of the feasibility study will be covered by WBIF. The total project for broadband development is estimated 48 million of Euro with different contributions.

The investments for broadband development infrastructure in zone 1 (white zones) and zone 2 (grey zones), etc. will be part of this project.

In terms of the broadband network, the EU proposed to classify the zones according to its existing or future status of NGN network infrastructure, thus defining the market situation for both the basic and NGN broadband networks:

- White zone if the NGN broadband network is not currently present or planned to be operational within the next three years; in this case state aid may be allowed.
- Grey zone if there is only one NGN broadband network in operation (or planned to be within the next three years); in this case, the area may be eligible for state aid, but more detailed analysis will be needed.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Development of broadband is expected to increase the number of employments and also to create more possibilities for online working for gender. Referring to study “The Impact of Digital Transformation on the Western Balkans – Tackling the Challenges towards Political Stability and Economic Prosperity”³², broadband investments could potentially contribute to the dynamics of new job openings in Western Balkan economies. It is estimated that broadband investments of 100 million euro could induce new jobs in a range from 3,000 to 10,000. As a result of lower labour productivity (more labour is required per unit of output), employment potential of broadband investments is the highest in Albania about 10000.

³² <https://wb6digital.files.wordpress.com/2018/01/wb6-study.pdf>

According to the study, a demand stimulus through 100 million euro broadband investments would induce additional GVA (gross value added) up to 0.9% in Albania. In addition, the broadband investments will improve the overall productivity as the relative effects on GVA exceed the effects on employment. By adding new economic benefits and job vacancies, broadband investments not only induce economic benefits, but also promote greater political stability, higher quality of public services. The reform creates the possibilities to address gender issue in ICT through increase possibilities for women as online workers from home in remote, rural areas.

7. *Expected impact on the environment*

The reform is not expected to have an impact on the environment.

8. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
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	Medium	Monitoring, reporting and continued close cooperation between stakeholders
Lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector	Medium	

5.3.5. Trade-related reforms

a. *Analysis of main obstacles*

Albanian trade regime has not undergone any substantial changes and maintained its overall level of openness during the last year. Trade openness for 2018, as a share per GDP, reached at 56%, whereas the exports/imports coverage coefficient showed a slight increase from 43.6% for 2017 to 48.4% for 2018. Albanian trade exchange showed an improvement during 2018 with an increase in exports at (13.7%) and a slight increase in imports at (2.4%).

The main EU partners for exports during 2018 were Italy and Spain and for imports were Italy and Greece. During 2018, the exports to Italy and Spain were 10.2% and 62.9% respectively of total export to EU; while imports from Italy and Greece were respectively 43.7% and 13% of total imports from EU. The exports to Italy in 2018, compared with the previous year, increased by 2.1% and imports decreased by 2.2%; while exports to Spain in 2018, compared with the same period of 2017, increased by 61.3% and imports from Greece increased by 4.5%.

Moreover, for better and greater integration to regional markets, with the view to increase the export share to the region, better address the impediments to trade and diversification of exports, a comprehensive approach will be introduced in implementing simultaneously national and regional measures in the area of trade facilitation. For this reason, in line with the recommendations of trade indicator of the OECD Competitiveness Outlook 2018 and Business and Investments Development Strategy 2014-2020, a single strategy and action plan to improve trade performance of the country has been initiated. A working group within Ministry of Finance and Economy has been set up, to analyse and identify the sectors and specific products which have potential to be exported. This document will serve as the bases for introduction of new measures for the upcoming years. Based on the analysis and inputs in collaboration with business sector, a set of recommendations and the action plan will be prepared and will be distributed to stakeholders for implementation.

Albania remains highly committed to strengthening the capacities of the National Trade Facilitation Committee. For this purpose, two ad hoc working groups are established focusing on reduction and/or elimination of fees and charges for imports and exports where is necessary and possible mutual

recognition of documents and SPS certificates bilaterally with CEFTA Party. Strengthening administrative capacity and trade qualified staff remains a challenge.

Measures that have been introduced to the ERP 2019-2021, which are in line with MAP REA and aim at reduction of costs and time of cross-border trade procedures will continue to be implemented accordingly. Moreover, in order to implement the commitments arising for Additional Protocol 5, at regional level, the highest priority will be given to preparations of the implementation provision of the mutual recognition of border documents and authorized economic operator.

a. Reform measures

Reform measure 13: Facilitating cross border movement of goods

1. Description

While Albania is ranked 25th in terms of trading across borders in 2020 Doing Business report, it does not perform well in other competitiveness indicators on trade and transport infrastructure reports. Albania is ranked 81st in the Global Competitiveness Index 2019 out of 141 economies, gaining 65.8 points out 100 in trade openness sub-pillar and 35.5 out 100 in transport infrastructure sub-pillar.

Coordination and collective actions is necessary to reduce trade transactions costs along the regional trade corridors. Removing constrains in the trade corridors can allow the formation of Global Value Chains and promote better specialization of industries in the country. Trade and transport facilitation are key elements to deepening economic integration in the region, which had been completed over the latest years by high level diplomatic efforts “the Berlin Process “which aims the facilitation of issues of infrastructural and economic development.

Based on the above analyses, two new measures will be introducing in the ERP 2020-2022, with the focus on facilitation of trade and transport in the border.

i) Improvement of Border Crossing point of Qafë-Thanë (Albania) with North Macedonia, through establishing single operational one stop shop. The proposed measure will result in promoting international and transit movements of people and goods with EU and its regional neighbours. This improvement will have a positive impact on logistic costs attracting more international road users and increasing economic opportunities for long distance truck drivers and local road users.

ii) Develop the New Computerized Transit System fully compatible with EU-NCTS.

2. Activities planned

a. Activities planned in 2020

- Promote AEO concept and with relevant stakeholders and mutual recognition of AEO programs under AP5 with private sector;
- Review of the existing physical condition and equipment and projected needs with North Macedonia.

b. Activities planned in 2021

- Review the current practices and plan to promote the integration of information flows among border agencies and traders and harmonization of their operational procedures with North Macedonia;
- Implement the plan to promote integration and harmonization;
- Situation analysis and review of international best practice in implementing a new NCTS.

c. Activities planned in 2022

- Architecture and deployment of the National Transit Application and Economic Operator Registration and Identification fully compatible with EU-NCTS;
- IT deployment of modules for NCTS implementation, including the national IT system establishing connectivity to the EU common domain through “CCN/CSI/”SPEED 2”.

3. Results indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Target (2022)

Increase of exports share to the region;	6%	10%	12%
Companies receiving AEO status;	4	8	10
Time taken to clear goods in export ³³ (hour)	9	9	8.5

4. *Expected impact on competitiveness*

The main benefits of these measures will be time saving for import and export clearance procedures, queuing and traveling between crossing points that will stimulate cross-border trade and contribute positively to economic growth, while possibly bringing positive effects for productivity.

5. *Estimated cost of the activities and the source of financing*

The estimated cost for implementation of the NCTS and single operational one stop-shop with North Macedonia is approximately 2.7 million euro³⁴ loan for a 5 years project, from an IFI.

6. *Expected impact on social outcomes, such as employment, poverty reduction, equality and gender*

A direct impact will be in increasing the volume of trade, boosting economic growth, promoting new jobs and new opportunities.

7. *Expected impact on the environment*

The measure is neutral in terms of environmental impact.

8. *Potential risks*

Risk	Probability	Planned mitigating action
Insufficient institutional capacity for implementation of the reform.	Moderate	The measures entail high inter-agency coordination with the neighbouring country which could delay or stall implementation

5.3.6. Education and skills

b. Analysis of main obstacles

The quality of education and the inclusiveness remain the main priorities for the pre-university education system. Albania has adopted a new 'competence-based' curriculum – and developed a set of textbooks to match the new content and methodology - which has been implemented gradually from the year 2014, from grade 1 to 12 in pre-university education system.

In order to provide quality education and implementing new competence-based curriculum, further improvement of school infrastructure, provision of didactic tools, using technology in the learning process, increasing the number of laboratories, IT cabinets, and sports facilities in the schools are to be addressed. Continuous training of teachers on competency-based teacher methodology, and formative assessment of competency-based learners as well as the initial teacher training of new teachers according to the curriculum with competencies is crucial.

Inclusive education aims at providing the conditions that every child reaches her or his full potential within the education system. Integrating all children with disabilities in the education system remains a challenge. The number of pupils with disabilities in non-special schools in 2018-19 was 3,683, educated and supported by 944 assistant teachers, about one teacher for approximately four pupils with disabilities at national level. Insufficient number of teaching assistants in regions where the number of pupils with disabilities per teacher is higher, such as Tirana, Tirana District, Durrës and Kamëz, should be further addressed. A new guideline on assistant teachers has been approved and decreasing the ration teacher/ pupil with disabilities to 1 for 2 to 3 pupils, at national level.

³³ Trade across borders indicator- Doing Business Report 2020

³⁴ Approximately 3 mn USD

A crucial issue for improving this education service, addressed this year, is the lack of licenced special education teachers (assistant teachers). MESY has made the necessary legal intervention to legitimise the licencing of this category of teachers and in December 2019 the first 20 special education teachers are licensed.

Another important reform measure aiming at improving the quality of education and ensuring inclusive education is also centralizing of multi-grades classrooms by transferring pupils studying in small multi-grade classrooms, to nearby larger schools where they can learn in classrooms with their peers. The lack of appropriate road infrastructure in especially in rural and remote areas is the main obstacle for the transportation of pupils. Also raising awareness of the parents and the community for transferring children to nearby larger schools, where more qualitative education can be provided, is an actual challenge.

The reform of the vocational education and training (VET) system in Albania has largely focused on improving the attractiveness of the VET system, accessibility and labour market linkages / relevance, while it strives to ensure core principles of inclusiveness, autonomy, quality, cooperation, participation, mobility and diversity. Notwithstanding the potential for the VET system to embody these principles, legislative, institutional and implementation challenges persist. The VET system still struggles to respond proactively to private sector needs / requirements, offers a narrow range of programmes / courses, and mainly caters to low skills acquisition to the detriment of medium and high vocational skills. VET providers have limited autonomy with decision-making centralized and limited financial autonomy. Collaboration with the private sector has yielded some positive results especially in the area of work-based learning, and in terms of their participation in the management boards of VET provider boards. Nonetheless, private sector participation at higher governance levels is needed.

2019 has marked significant improvement skills development policies, as well as the legal and institutional framework governing the sector. Following the Midterm Review of the National Employment and Skills Strategy 2014-2020, the strategy and its related action plan have been revised and extended until 2022 (as approved by a Decision of the Council of Ministers in October 2019). The adoption of law No.15 / 2019 "On Employment Promotion" in March 2019, completed the legal framework related to employment policies/programmes and skills development, but more importantly it paved the way for the finalization of the bylaws of the VET law. By November 2019, 13 out of 23 bylaws had been adopted, 2 were in the final stage of approval, 5 drafted and about to be shared for further consultation, and only 3 not commenced. Furthermore, it placed the providers of vocational education and training under the management of the National Agency on Employment and Skills (NAES) - DCM 554/2019. The approved structure of NAES includes a significant increase in human resources at the central level allowing for the institution to carry out all the functions given by law. The reconstitution of the National Agency for VET and Qualifications (NAVETQ), including all the new functions given by the VET Law and the Albanian Qualifications Framework Law, largely completes the institutional framework governing the VET sector.

According to INSTAT³⁵ data the employment rate of people with secondary vocational education is 68.3% compared to 53% for those with general secondary education, highlighting that increased employment opportunities for those in possession of vocational skills. Since 2017, the employability of all VET graduates (both secondary VET students and trainees) is traced through an annual tracer study. The results indicate that in 2019 52% of the graduates from 2018 were employed and 12% were concurrently working and studying, for a total employment rate of 64%. The results from 2018 (looking at graduates from 2017) showed that 55% were employed and 8% were working and studying, for a total employment rate of 63%. The share of students attending further studies increased in 2019.

Despite the clear labour market advantage of VET graduates, enrolment in secondary vocational education in the 2019-2020 academic year declined to 18,164 (down from 19,200 in 2018-2019)

³⁵ Albania in Figures 2018, INSTAT, <http://www.instat.gov.al/en/publications/books/2019/albania-in-figures-2018/>

students, simultaneously highlighting the attractiveness challenge, the need for greater promotion of vocational education as a viable path toward employment, and the impacts of the demographic decline. In the current academic year there is a significant increase in the number of students from rural areas and marginalized groups. More specifically, the participation of Roma and Egyptians (R/E) increased by 12% reaching 580 students (compared to 519 in the previous year), while the participation of people with disabilities increased from 108 to 128. 45.3% of students are from rural areas, an increase from 43% in 2018-2019.

With regards to the provisioning of short-term vocational training courses through the Regional Directorates of Public Vocational Training, during January - November 2019, the number of registered trainees amounted to 25,411 individuals (out of which 11,109 were women). This represents an increase compared to 2018, when the total number of trainees amounted to 17,844. Despite this significant increase, adult participation in formal or non-formal education and training in Albania remains very low.

Priority has also been given to quality assurance in vocational education and training, particularly the continuous professional development of teachers/instructors. For the first time in 20 years, a 21-day pedagogical training programme was developed in 2016 targeting all VET teachers and instructors. Both pedagogic and technical know-how require continuous training and ongoing development in order to enable teaching contemporary knowledge in a comprehensible way. Over the course of 3 years 491 teachers and instructors were trained, and an addition 120 were trained in 2019. Beyond the 21-day pedagogical training, other training programmes have been delivered to managers and teachers in vocational education through donor programmes. Their institutionalization, and the provision of continued professional development beyond initial qualification is still needed.

An additional step towards quality assurance was the self-assessment carried out in all 45 VET providers (35 schools and 10 VTCs) in 2019 – supported by UNDP and NAVETQ, and which will serve a good basis for further improvements at the provider level. In order to meet the labour market needs for skilled employees, in 2019, 13 vocational qualification descriptions/standards and 6 frame curricula have been developed. Currently, NAVETQ is in the process of developing two new qualifications related to programming and agriculture technologies. Revised curricula aim to include marginalized groups to attend vocational education.

Also, the national regulation of essential elements of WBL (work-based learning) is pending approval. It regulates WBL at the national level in roles and responsibilities between schools the LFS and the private sector in order to increase the quality for the delivery of WBL.

Through the state budget, significant infrastructure investments have been made in vocational schools and training centres, both in terms of new buildings and modern equipment and laboratories. Whereas, digitalization has become a significant element of the labour market, and some investments in digital infrastructure have been undertaken, VET providers has yet to embrace its advantages and engage in new ways of learning / modern teaching.

Changing the system for distribution of funds in the pre-school education in Albania constitute a necessity, since the current system doesn't adequately reflect social, demographic and infrastructure changes that have taken place in the last 2 decades. The previous report on the average size of children groups in kindergartens is 18 kids per nurse, with a minimum of 3 kids per nurse and a maximum of 26 kids per nurse. There exists a need to increase the number of nurses in some municipalities that have a disproportionately high number of kids, for whom access to kindergartens must be guaranteed. The state budget for 2019, made it possible to overcome the barrier created in the pre-school education, due to lack of financing for increasing the capacity and for offering quality service.

There is a general consensus/agreement in the area of financing in education that the size of classes in urban areas tends to be relatively higher than the average, meanwhile rural or even mountainous areas tend to have average or even smaller class sizes, owing to migration or immigration. Nevertheless, changing the financing of kindergartens remains necessary, especially in those municipalities that have experienced massive and rapid population boom, while the number of kindergartens and nurses have not followed the same growth rate.

According to international best practices, it is recommended to shift to a funding system based primarily on the number of kids. This necessity is also recognised by the current legislation in force for pre-university education in our country. The reform measure is fully in compliance with the provisions of Article 28 and 37 of Law no. 69 of 21.06.2012 “On the pre-university education in the Republic of Albania”, as amended, and international best practices that endorse a distribution of funds mainly based on the number of kids (aged 3-6).

c. Reform measures

Reform measure 14: Finalisation of the pre-university curricular reform, training and hiring of teachers

1. Description

Implementing new competency-based curricula for grade five, closes the process of curricular reform in 2020 and allows MESY to shift its focus toward further training of teachers and assessment. Reform in preschool education has gone in coherence with reform at other levels of the pre-university education system. The best development of the preschool education has been the opportunity to develop new curriculum documents and the professional development of preschool teachers.

Another important policy is ‘providing free textbooks’, for all pupils attending compulsory education (grades 1-9) by 2022, apart pupils from vulnerable categories. Grades 1-5 are actually being provided with free textbooks. In the scholar year 2019-2020, around 155,000 pupil, grades 1 to 5 are benefiting from using free textbooks beside 70,000 pupils from 16 vulnerable categories.

Regarding the continuous professional development of teachers, the Albanian legislation states that teachers and principals have to be trained at least 3 days a year, based on the needs of teachers and offers from accredited training agencies. Besides the accredited training agencies, Agency for Quality Assurance in Pre-university Education offers training for teachers.

Regarding professional development of teachers, based on a Memorandum of Understanding between MESY and the British Council, on 21st Century Schools Program funded by the United Kingdom Government, a total of 4,500 teachers will be trained by national trainers, a total of 23500 micro:bits will be distributed throughout the program, and 1197 schools will benefit. This training program is focused on critical thinking, problem solving and coding skills for using of micro devices: bits and how to integrate these skills into practice in the classroom. The training is in line with the competence based curricula on basic skills and lifelong learning competencies aiming at developing critical thinking, problem solving and digital skills.

2. Activities planned

a. Activities planned in 2020

- Assess the new competence-based curricula in pre-university education based on the internal evaluation and external reports;
- Inclusion of grade 6 in the ‘free textbook’ policy;
- Training of 1100 ToT, heads of professional networks on competency-based curriculum;³⁶
- Capacity building of staff in local education units on quality assurance guidelines (200 specialists);
- Training of 92 ToT, heads of professional networks on preschool education, on competency-based curriculum;
- Training of 1500 preschool principals and teachers of pupils age 5-6, on new curricula documentation;
- Training of 2,200 teachers and implementing the program of 21st Century Schools for 40,000 students.

b. Activities planned in 2021

- The review of the curricula for basic education and its implementation according to the

³⁶ One TOT (trainer of trainers) trains around 20-25 teachers of the same profile

- results of the assessment;
- Training of 1100 ToT, head of the professional networks, on competence -based curriculum;
- Inclusion of grade 7 in the 'free textbook' policy;
- The establishment of the lifelong learning training centres in universities for the organization of teacher training in pre-university education;
- Assessment of hiring of teacher's reform including the assessment of the portfolio, of e testing process and the entire platform;
- Capacity building on implementation of quality assurance guidelines, of staff in local education units (200 specialists trained and mentored);
- Training of 4800 preschool principal and teachers of pupils age 5-6, on new curricula documentation;
- Training of 1100 teachers and implementing the program 21st Century Schools for 20,000 students.

c. Activities planned in 2022

- The review of the curricula for upper secondary education and its implementation according to the results of the assessment;
- Training of 1100 ToT, head of the professional networks, on competence-based curriculum;
- Inclusion of grade 8 and 9 in the 'free textbook' policy.
- Assessment of the effectiveness of initial teacher training program for new teachers;
- Capacity building on implementation of quality assurance guidelines, of staff in local education units (200 specialists trained and mentored);
- Training of 4800 preschool principal and teachers of pupils aged 5-6, on new curricula documentation;
- Analyse results of 21st Century Schools program.

3. *Results indicators*

Indicator	Baseline (2019)	Intermediate target (2021)	Target (2022)
Number of teachers trained through professional networks	22500	22500	22500
OECD PISA results on basic skills of 15-year-olds	PISA 2018 reading literacy 405; mathematics 489; science 417;	2021 the next Pisa Test	2022 results of PISA 2021
Number of students (pupils) in pre-university education benefiting/using free textbooks	School year 2019-2020: around 155,000 pupils, grade 1-5; 70,000 pupils from 16 vulnerable categories ³⁷ .		

4. *Expected impact on competitiveness*

In the long term – according to studies like the OECD PISA study that make a connection between better results in basic skills and economic development of countries – improved teacher quality increases results in basic skills, which enables this generation of students to be better prepared for the job market: as either employees or job creators.

³⁷ Annual report of MESY

5. Estimated cost of the activities and the source of financing

Regarding the program 21st Century Schools' the estimated costs are 3 million 484 000 pound over the course of 3 years, covered by the Government of the United Kingdom.

Year	Activity	Estimated cost	Source of financing
2020	Assessment of new curricula in in basic education and secondary education, based on internal evaluation	10 000 Euro	State budget
	Assessment of the new curricula based on the external evaluation	27 300 Euro	UNICEF
	Training of 1100 ToT, special focus on science	34 000 Euro	State budget
	Capacity building of 200 specialists of local educational offices.	3 000 Euro	State budget
	Training of 92 ToT of preschool education on new curricula	1 500 Euro	
	Training of 1500 preschool principal and teachers of pupils age 5-6 on new curricula documents	20 000 Euro	
2021	Training of 1100 ToT (head of professional network) on implementation of new curricula, focusing on language.	40 000 Euro	State budget
	Review of new curricula of basic education and its implementation according to the results of the assessment	2 000 Euro	State budget
	The establishment of the lifelong learning training centres in universities for the organization of teacher training in pre-university education	750 820 Euro	Erasmus+, budget European Union
	Mentoring 200 specialist of educational offices on implementation of the quality assurance guidelines	4 000 Euro	State budget
	Training of 4500 preschool principal and teachers on aged 3-6 will on new curricula documents	60 000 Euro	
2022	Training of the 1100 ToT (head of the professional networks) on implementation of the new curricula, special focus on mathematics	40 000 Euro	State budget
	Review of curricula for upper secondary education and its implementation according to assessment results.	2 000 Euro	State budget
	Assessment of effectiveness of initial teacher training program for the new teachers	2 000 Euro	State budget
	Mentoring 200 specialist on implementation of the quality assurance guidelines	4 000 Euro	State budget

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Gender neutral measure. Gender equality will be respected throughout the implementation of the reform measure

7. *Expected impact on the environment*

The measure is neutral in terms of environmental impact.

8. *Potential risks*

Risk	Probability	Planned mitigating action
Budgetary constraints for 'free textbook' project.	Low	Included in Midterm Budget Planning 2020-2022.
Low performance of newly employed staff in local education units (LEU)	Low	Capacity building for new staff of local education offices to assess quality in school.

Reform measure 15: Inclusive education

1. *Description*

The reform measure aims at ensuring inclusive education through further increase of the number of assistant teachers for children with disability in the mainstream public schools and further reduction of pupils attending multi-grade and low-quality classes. The past two years have given priority to professional support of Assistant Teachers. Efforts have been made to organize assistant teachers in professional networks and train them. So far 42 professional networks have been set up and about 500 assistant teachers have been trained by Quality Assurance Agency on Pre-university Education also from non-governmental partners. The needs for assistant teachers for children with disabilities are determined by the multidisciplinary commissions, set up in each local education office.

Regarding the centralizing of the multi-grades classrooms by transferring pupils studying in small multi-grade classrooms to nearby larger schools where they can learn in classrooms with their peers, last year have been centralised 348 multi-grades classrooms in the nearest schools and benefited about 2829 pupils. All measures have been taken to ensure the transportation of pupils. Currently, every child who lives over 2 km from the nearest school receives free transportation. Dedicated competency-based curriculum and guide for its implementation is developed for pupils in the multi-grades classroom with basic literacy attainment.

2. *Activities planned*

a. Activities planned in 2020

- Increase number of pupils attending better quality schools by up to 500³⁸ or more, by transferring them from multi grade classes³⁹;
- Increase the number of assistant teachers for children with disability in public mainstream schools to 1,000;
- Training of 42 ToT (head of professional networks of assistant teachers) and 1000 assistant teachers.

b. Activities planned in 2021

- Increase the number of pupils attending better quality schools by up to 500 or more by transferring them from multi-grade schools;
- Increase the number of assistant teachers for children with disabilities in public mainstream schools to 1,050;
- Training of 1050 assistant teachers;
- Design source materials (manuals, modules, instruments, etc.) for assistant teachers.

c. Activities planned in 2022

- Increase the number of pupils attending better quality schools by up to 500 or more by transferring them from multi-grade schools.

³⁸ Exact number to be determined through yearly based analysis

³⁹ There are no additional cost planned for this activity, as the effects on the budget are positive, thus reducing the budget expenditures.

- Increase the number of assistant teachers in public mainstream schools to 1,100.
- Training of 1100 assistant teachers across the country.
- Upgrade source materials (manuals, modules, instruments, etc.).

3. *Results indicators*

Indicator	Baseline	Intermediate target	Target
The number of children in multi-grades classrooms transferred to nearby better-quality schools.	(2018-2019) 2829 pupils	(2020) +500 referring to baseline	(2022) +1500 referring to baseline
The number of assistant teachers for children with disability in mainstream schools.	(2018-2019) 944	(2021) 1000	(2022) 1100
Children with disabilities integrated in mainstream schools as a ratio to total of pupils with disabilities attending education.	(2019) 85%	(2020) 86%	(2021) 87%

4. *Expected impact on competitiveness*

In the long term, giving better education opportunities multi-grades classrooms and children with disabilities will increase their chances to achieve the skills needed for joining the job market and leading independent lives as adults.

5. *Estimated cost of the activities and the source of financing*

Year	Activity	Estimated cost	Source of financing
<i>Assistant teachers for the children with disability in the mainstream schools for is 6.8 million Euro</i>		<i>6.8 mn Euro</i>	<i>State budget</i>
2020	1000 assistant teachers for children with disability in the public mainstream schools	374400 Euro	State budget
	Training of 1000 assistant teachers across the country	27000 Euro	
2021	1050 assistant teachers for children with disability in public mainstream schools	39312 Euro	State budget
	Training of 1050 assistant teachers across the country	27000 Euro	
	Design of source materials (manuals, modules, instruments etc.)	12000 Euro	
2022	1100 assistant teachers for children with disability in public mainstream schools	411840 Euro	State budget
	Training of 1100 assistant teachers across the country	29000 Euro	
	Upgrade of source materials (manuals, modules, instruments etc.) for assistant teachers	20000 Euro	

6. *Expected impact on social outcomes, such as employment, poverty reduction, equality and gender*

Better inclusion, better opportunities for children Employment of assistant teachers. Gender equality will be respected throughout the implementation of the measure.

7. *Expected impact on the environment*

The measure is neutral in terms of environmental impact.

8. *Potential risks*

Local communities may resist the transfer of students to the nearby school, hence closing down the classrooms in their village.

Risk	Probability (low, high)	Planned mitigating action
Reluctance from families to allow the transfer of their children to nearby schools.	low	Supportive measures for children and parents. Cooperation with the community for this process
Lack of sufficient funds to hire assistant teachers.	low	Annual Budget Planning

Reform measure 16: Modernisation of the early childhood education system financing

1. Description

In the framework of the effective fiscal decentralisation policies, the Ministry of Finance and Economy, in cooperation with the Ministry of Education, Sport, and Youth have worked to ensure that the transfer of functions/responsibilities at the local level is accompanied with the establishment of an appropriate and effective financing scheme that seeks the constant improvement of quality of services.

In this respect, in the budget for the fiscal year 2020, a new distribution formula for funds in the pre-school education has been drafted that implements the legal framework for pre-university education, local governance and finances based on international best practices.

The budget for 2020 marks the continuation of an important reform measure that sets a new standard in the pre-school education. Initiated in 2019, the reform will continue in the next years, in accordance with the legal framework in force and international best practices, whereby the funds for pre-school education will be primarily distributed on the basis of the number of pupils, as the best indicator for funds and services needs, and partially will be based on the current system of distribution of funds according to the number of nurses transferred in 2016 until 2018. In the budget for 2020, the salaries fund for nurses/educators will be distributed on the basis of the number of kids. In particular, 60% of the wages fund for nurses will be distributed on the basis of kids' numbers (aged 3-6) and 40% on the basis of number of nurses. The reform measure will ensure a proportionate distribution of funds based on the number of kids that need to be provided pre-school education, but at the same time ensures a gradual transition that minimises costs, by saving 40% of the current system.

2. Activities planned

a. Activities planned in 2020

- Identification of nurses employment during 2019;
- The annual budget implementation guideline will determine/specify the deadlines and reporting formats on the progress of the reform.
- Monitor and follow the progress of implementation of the reform measure and the effects for the improving the quality of pre-school education.

b. Activities planned in 2021

- Dialogue with local self-governance units on the progress and improvement of the reform;
- Continuous monitoring of implementation of the reform by local self-government units;
- Assessment of the impact in the pre-school education.

c. Activities planned in 2022

- Dialogue with local self-governance units on the progress and improvement of the reform;
- Continuous monitoring of implementation of the reform by local self-government units;
- Assessment of the impact in the pre-school education.

3. Results indicators

- Number of classes in kindergarten reduced from the current 18 kids per nurse to 15 kids per nurse.
- Increase the funds in municipalities, which have real and immediate need to increase the number of nurses, by lowering the maximum number of groups from 26 or 23 kids per

nurse to 18 kids per nurse, as a precondition for improving the quality of education for children aged 3-6 enrolled in public kindergartens.

4. Expected impact on competitiveness (not relevant for the area of social protection and inclusion)

The reform measure is not directly linked to the increase of competitiveness in the market so long as it is related to the increase of budgetary support with a view to increase quality of providing pre-school education. In this regard, the growth goes entirely towards improvement of the pre-school education service that is offered by local government units.

5. Estimated cost of the activities and the source of financing

The cost of the reform measure is 2.64 million EUR and will be covered by the increase of unconditional transfers for local government units in the medium term budget programme for 2020, 2021 and 2022. The source of financing will be the increase of unconditional transfer year after year aiming to cover and ensure the continuity of the reform measure through the years.

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

The reform measure will increase the number of nurses from 4410 to 4850 – an increase of 440 more nurses across 32 municipalities that are in an immediate need for raising the number of nurses. This is a gender-neutral reform measure, despite the fact that it will increase the number of nurses by promoting employment of women in the education sector. Indirectly, the reform measure will help facilitate the job and care of mothers towards their children as a result of a better and higher quality service in the pre-school education.

7. Expected impact on the environment

The reform measure is not expected to have an impact on the environment.

8. Potential risks

A potential risk associated with the implementation of the reform measure is the failure to fill the vacancy positions of the employees by the local self-governing units. In order to mitigate the potential risk, appropriate measures have been taken by the Ministry of Finance and Economy by including provisions in the bylaws for the application of the budget on procedures and regulations in respect of implementation of this fund for the support of the pre-school education reform.

Reform measure 17: Improve the quality and coverage of VET while ensuring linkages with the labour market

1. Description

The National Employment and Skills Strategy 2019 - 2022 is the main policy document that guides the implementation of actions related to employment and skills development in the country. The objectives (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) will be achieved through several activities related to the modernization of VET involvement, aiming at the development of the labour market.

Provision of quality vocational education and training for young people and adults are the overall strategic priorities of VET.

2. Activities planned

a. **Activities planned in 2020**

- VET offer optimization plan in line with regional skills development need developed and adopted by the Ministry of Finance and Economy and the process of re-organization of VET providers commenced;
 - Review of VET provider funding and budgeting mechanisms and finalized the financial autonomy bylaw;
 - Develop the competencies of 200 VET teachers as well as teacher trainers (initial and on-going vocational training) (MFE; NAVETQ; VET provider);
 - Analysis of existing VET information systems;
 - Strengthening and capacity development of NAES and NAVETQ;
 - Establish the National VET Council;
 - New / revised vocational qualifications in line with the AQF and according to labour market needs.
- b. Activities planned in 2021**
- Improve the quality of VET through investment in infrastructure (MFE; NAES; NAVETQ);
 - Develop the competencies of 250 VET teachers as well as teacher trainers;
 - Establish VET Information System;
 - Further development and implementation of the Albanian Qualifications Framework.
- c. Activities planned in 2022**
- Increase quality of VET through investment in infrastructure;
 - Develop the competencies of 300 VET teachers, and supporting staff as well as teacher trainers (MFE; NAES; NAVETQ);
 - Establishment of Second sectorial committee (Information Technology and communication).

3. *Results indicators*

Indicator	Baseline (2014)	Intermediate target (2018)	Target (2022)
% of graduates now in employment			
% of teachers trained in lifelong training	0	70%	100%
number of enrolment in the VE and % of the students attending the general upper secondary education	14%	19.8%	21%
% of female students attending VE schools	10	16	20

4. *Expected impact on competitiveness*

The reform seeks to equip young people with the necessary training, skills and qualifications to compete in the labour market and increase their employment opportunities. A qualified workforce is a precondition for attracting technology-based investments, further development of Albanian sectors with comparative advantages and/or opportunities and strengths (like tourism) and an important factor incentivising FDI inflows.

5. *Estimated cost of the activities and the source of financing*

The costs for implementation of the VET measures are included in the Medium Term Budget Program. The mid-term budget 2020-2023, is in the planning process.

6. *Expected impact on social outcomes, such as employment, poverty reduction, equality and gender*

The reform aims at ensuring inclusive and equal quality education and promoting lifelong learning opportunities for all. Also, the refocus aims at skills development, especially regarding access to vocational skills for employment, decent work and entrepreneurship; the elimination of gender disparity and ensuring access for the vulnerable.

7. *Expected impact on the environment*

The reform measure is not expected to have an impact on the environment.

8. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Inadequate availability for on-the-job training/internship in the market.	Low	
Reluctance of teachers to participate in continuous training.	Low	
Inadequate level of coordination with businesses for better support on VET.	Medium	
Lack of specific regional assessment for skills lacking in labour market.	Medium	

5.3.7. Employment and labour markets

a. Analysis of main obstacles

Labour market data suggest that economic growth in Albania over the last four years has translated into significant improvements in the labour market. Job creation recovered from a sharp decline in 2013 and economic growth and employment began to move in parallel. Although the employment rate for persons aged 15-64 in Albania increased from about 50 per cent at the end of 2013 to 61.4 per cent in Q2-2019, thus marking the highest ratio among Western Balkan countries, it remains below the average of European Union countries. The employment rate has improved significantly, especially among women (from 40 percent in 2013 to 54.6 percent in Q2-2019). However, gender inequality remains problematic, with men's employment rate being about 14 percent higher than that of women, potentially a reflection of cultural norms regarding family structure and limited alternatives to child and elder care.

Growth in employment has been accompanied by an increase in labour force participation, which reached 69.8 percent in Q2-2019. Women's participation increased by almost 12 percent over four years, from 50 percent in 2013 to 61.9 percent in Q2-2019. However, labour force participation rates also remain below European averages, with a significant difference between males and females of 15 percent. The youth participation rate (15-29) is lower than for the rest of the population (53.0% with a gender gap of 14%).

Beyond the stated improvements, Albania still faces significant challenges in ensuring safe and productive employment for all in working age, fostering higher productivity, and ensuring integration into the labour market, of vulnerable groups, especially the poor, women, youth and other disadvantaged groups. A major challenge for the country is to improve the quality of employment opportunities.

While unemployment has fallen sharply, down to 11.5 percent in Q2-2019, it remains high, especially compared to EU countries. Only less than half of the unemployed seek employment through public employment services, proving that the economic aid scheme, labour offices and active labour market policies need to be better structured to support the unemployed. The youth unemployment rate in 2018 has fallen to 20.9%, the lowest level since 2012, but still remains high. Young people face an added challenge in their transition to the labour market, with 24.8% of them not being in employment, education or training (NEET) in Q2-2019. Vulnerable youth are insufficiently targeted by EPP. While the number of students enrolled in secondary vocational education and training (VET) has increased over the last years, it is still low. The labour market transition from VET is rather low (46.9% employed one year after graduation).

Further improvements, particularly for those at the margins of the labour market, hinge on the improvement of both active employment policies and the provision of quality social services. The labour market reintegration of vulnerable groups cannot be fully achieved while social care services remain insufficient and underdeveloped. The latter is linked primarily to the progress of the decentralization process, weak local government capacities and their ability to plan and allocate

resources for the delivery of social care services. Coordination between the National Employment Service (NES) and State Social Services (SSS) has commenced; however, the engagement of local government needs to be pursued. The Start Smart course was rolled out nationwide during 2019. Despite some improvements during 2018, in the efficiency of job mediation, the funding for active labour market policies has remained unchanged in the past few years (following a significant increase in 2014-2015). Employment promotion programs (EPP) implemented in 2015-2016 were evaluated in 2018 further highlighting the need for revising the EPPs and changing implementation modalities. Following the approval of the employment promotion law, the process of redesigning the EPPs has commenced, with the ultimate aim of improving labour market relevance, quality and targeting.

b. Reform measures

Reform measure 18: Improving the employability of the most vulnerable unemployed jobseekers through better targeted EPPs and employment services

1. Description

The National Employment and Skills Strategy (NESS) 2014-2020, the strategy and its related action plan have been revised and extended until 2022 (as approved by a Decision of the Council of Ministers in October 2019). Each measure will be implemented by the support provided for in the MTBP, as well as the donor projects. The main objective of the National Employment and Skills Strategy 2019 - 2022 and its action plan is to identify and design the appropriate incentives policies in the country for employment and vocational training of the workforce in order to create quality jobs and opportunities for employment and skills throughout the life cycle. The action plan focuses on enhancing decent work opportunities through efficient labour market policies, providing quality youth and adult education and training, fostering inclusion and social cohesion, and strengthening the market job and qualifications system. In line with the government's vision, this strategy looks at vocational training and employment linked together, with the aim of providing vocational education and training services closely linked to employment.

With the view of the NESS action plan the reforms seeks to:

Enable better profiling of jobseekers through the revamped information system of NAES and the development of individual employability plans. The revision of Employment Promotion programs in order to achieve a better response to the needs of unemployed jobseekers, particularly the most vulnerable and harmonize the interactions and interventions of NAES, State Social Service and local authorities.

2. Activities planned

a. Activities planned in 2020

- NAES 3-year work plan 2020-2022 developed in line with the revised NESS 2019-2022 and the new functions of the agency;
- Service protocols and tools, based on the three-tiered service model designed and IT system that adequately profiles jobseekers in place.
- New profiling module in the information system is in place and annual goals are derived, a target setting system is in place and the employability plan methodology has begun to be built.
- New and revised employment promotion programs in accordance with the new employment promotion law 15/2019 aimed at supporting the most vulnerable groups and registered unemployed jobseekers benefiting from these programs;
- Cooperation agreements signed with at least 3 municipalities in uncovered areas;
- Referring system of job seekers to VTC is in place.

b. Activities planned in 2021

- The implementation of employment promotion programs aimed at supporting the most vulnerable groups and activation and the number of registered unemployed jobseekers benefiting from employment promotion programs is targeted to reach 6,7%;
- Implementation of the agreements signed with municipalities in uncovered areas

- Maximizing the interaction and improving the targeting of active labour market policies and implement the prepared Vocational Education and Training reform package.

c. Activities planned in 2022

- Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance.
- Development and publication of information and quality analysis of the labour market and improvement of public relations
- The implementation of employment promotion programs aimed at supporting the most vulnerable groups and activation and the number of registered unemployed jobseekers benefiting from employment promotion programs is targeted to reach 7%.

3. Results indicators

Indicator	Baseline (2018)	Intermediate target (2020)	Target (2021)	Target (2022)
Increased training for unemployed jobseekers	50%	60%	65%	70%
Increase employment of jobseekers through job mediation services	28%	38%	43%	48%
Increase participation of unemployed job seekers in Employment promotion programs	6,4%	6,7%	7,0%	7.3%

4. Expected impact on competitiveness

The reform measure aims to improve skills and qualifications of the unemployed; therefore increasing the quality of the labour force. In the medium to long term, the measure is expected to help attract foreign direct investment as a skilled workforce belongs to the most important location factors.

5. Estimated cost of the activities and the source of financing

	2020	2021	2022
	Forecast in EUR	Forecast EUR	Forecast EUR
Mediations carried out by Employment Offices	2,565,671	2,627,975	2,606,932
Implementation of employment promotion programs	4,538,703	4,951,312	4,951,312
Training in VTC	2,414,523	2,430,615	2,438,785
Unemployment Benefits/transfer	4,621,225	4,951,312	4,951,312
Investment	1,246,080	1,246,080	1,246,080
Other administrative expenses	713,814	717,940	730,814
Total	16,100,016	16,925,235	16,925,235

6. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

Reduce unemployment and high passivity, especially in the group of young people and women. Increasing the satisfaction of women and girls involved in active labour market programs.

7. Expected impact on the environment

The measure is neutral in terms of environmental impact.

8. Potential risks

Risk	Probability (low, high)	Planned mitigating action

Lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector	Low	By having monitoring, reporting and close cooperation between relevant stakeholders
Increasing the trust of citizens in the services provided by the employment offices VT centres.	Low	Publications of active programs, as well as successful cases with all possible electronic means and through the media
Lack of improvements of quality of services in regional and local level, due to insufficient training	Low	Close monitoring of training activities and increasing the number of available trainers.

5.3.8. Social inclusion, poverty reduction and equal opportunities

a. Analysis of main obstacles

In 2018, the average monthly consumption expenditure for a household, consisting of 3.7 persons, on average, are 622.16 Eur. Estimation of average monthly expenses according to Household Budget Survey for household consumption in 2018 is 3.5% higher than in 2017.⁴⁰ Also World Bank data on Albania estimate that increase in minimum wages of 9 percent in 2017, could have impacted poverty. Referring to these estimates, real wages for women have increased relatively faster than for men in agriculture and construction, reducing the gender pay gap in those sectors, although overall the gap has remained about 11 percent since 2014. According to INSTAT, indicator of the gender pay gap in Albania during 2018 is 10.7%⁴¹.

Overall, structuring of cash and disability payments and integration with social services must address vulnerability and poverty to the greatest extent. The piloting of evaluation procedures for disability through the electronic register aims to ensure a fair and transparent process and improve the institutional capacity to manage disability assessment and delineation. The challenge of piloting evaluation procedures for Economic Aid and disability through the electronic register remains to ensure a fair and transparent process. It should improve the institutional capacity to manage disability assessment and delineation.

The capacities of local government to benefit from the Social Fund and expand the range of integrated social care services, employment measures and inclusive education at the local level in line with the municipal social plans, are not sufficient. This is important for sustainability considering the funding methodology adopted by the Council of Ministers enables each municipality to set up social services in the area, starting in the first year with 90% of funding, second year 60% of funding, third year 30% of funding, in order to increase the commitment of local structures to finance these services.

Measurement of poverty with a focus on vulnerable groups remains a challenge. Data on the standard of living must be addressed in policy making. Social inclusion measurement and monitoring through the IPMG and INSTAT data are important to address the government objectives for social inclusion of vulnerable groups in crosscutting areas. This is important in the revision of cross cutting strategies and action plans for Gender equality, LGBTI categories, Roma and Egyptian community to enhance data collection and improved cooperation of the central and local government. Analysis of services and development of social service plans across local government units, in a comprehensive manner is needed to capture vulnerability. SILC data are needed to address properly in country level the causes and effects of poverty and reflected in the strategic context for Action Plan for Persons with Disability as well as child protection policy and policy for social protection of individuals in risk of poverty.

b. Reform measures

⁴⁰ INSTAT, National Household Budget Survey, 2018

⁴¹ In 2014, INSTAT published for the first time data, gender gap was 10%. The gender inequality gap was 11.47 % in 2015 and 11.44 in 2016.

Reform measure 19: Strengthening social protection, and social inclusion measures

1. Description

The overall goal of this measure is to better target people in need through social integrated services and through financial mechanisms. Strengthening monitoring, evaluation and capacity building in local, regional and central structures is the precondition to empower vulnerable groups/people in need.

Share of government budget on social protection accounted for 9.1 percent in 2017, from 8.9 percent in 2016. The profiles of people in need are different in urban and rural areas, such as women and young people in need, persons with disability and the Roma and Egyptian community. Recently approved Law 57/2019 "On social assistance" determines the disability benefits and benefits for individuals and families in need who cannot provide minimum of living, poverty reduction and social protection through the systemic interventions and services for improving their livelihood and social assistance through immediate financial assistance to new born babies.

Concrete interventions aim to improve the standards of delivery of existing social care services; planning and creating new missing services and developing social policies at central and local level. Such is the Social fund, a financial mechanism through which financial support is provided to local self-government units. Based on the Social Plan of the Municipality and the funding methodology, social services in the territory must respond to the needs of the vulnerable groups but also to the integrated approach with activation measures. Economic aid beneficiaries or persons with disability are two important categories in the Social Plan of the municipality.

The municipal government is expected to maintain partnerships in making these services sustainable. The first round of applications and needs assessment process resulted in 14 new services municipalities benefiting from the Social Fund.

Another type of support to people from disadvantaged groups through employment in social enterprises is the implementation of the legislation on social enterprises and sub-legal acts, as a means for reintegration of persons from vulnerable groups.⁴²

Impact of poverty and causes in the municipality level is evidenced from the electronic system (MIS) for economic assistance and screening for Eligible Economic Aid beneficiaries. On the other hand, social problems need to be addressed based on specific needs in urban and rural areas and based on the profile of poverty of SILC. The poverty map sets out the requirements for new financial, administrative and legislative instruments that will create a comprehensive system of monitoring mechanisms.

2. Activities planned

a. Activities planned in 2020

- Efficient targeting of economic aid scheme and disability cash payments combined with services;
- Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises;
- Support local government to draft social plans;
- Capacity building of municipalities to benefit from social fund. Monitor social inclusion indicators through improved data in the NAPs.

b. Activities planned in 2021

- Implement the new evaluation scheme and social reintegration programs to reduce number of families and individuals in need benefiting from the economic assistance scheme from 70,000 families currently to 6880000 in 2021;
- Implement the bio-psycho-social evaluation scheme to support with persons with disabilities with combined cash support and social care;
- Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises;

⁴² Social enterprises legislation foresees that 30% of the staff are from specific categories.

- Support local government to draft social plans;
- Improve indicators for measurement of social inclusion and poverty in line with EU standards of data collection for inclusion.

c. Activities planned in 2022

- Establish Needs and Referral Assessment structures / units and increase the capacity of local staff to assess, plan, deliver and monitor social care services;
- Improve delivery of community-based social services by local government units to all categories in need within the frame of Social Fund;
- Employ persons from vulnerable categories in social enterprises;
- Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises;
- Support local government to draft social plans;
- Monitor and measure 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;
- Improve indicators for measurement of social inclusion and poverty in line with EU standards of data collection for inclusion.

3. Results indicators

Indicator	Baseline (2019)	Intermediate target (2020)	Target (2022)
% of economic aid beneficiaries over the number of applicants	75%	80%	95%
Number of vulnerable persons employed by social enterprises	NA	50	100 (cumulative)
% of people with disabilities who are commissioned through the information management system	57%	70%	90%
New social services for disadvantaged groups provided through local government units from social fund financing	14	25	35 ⁴³

4. Estimated cost of the activities and the source of financing

2,800,000 EUR⁴⁴ for social enterprise and social fund for time-frame 2020-2022.

5. Expected impact on social outcomes, such as employment, poverty reduction, equality and gender

From the Social Fund will benefit all municipalities through social plans and identified needs for social services that are scarce. Integrated social care system based on the principle of decentralization and deinstitutionalisation, for the inclusion of vulnerable groups in social protection programs will support Women, Youth, and other vulnerable groups, Roma and Egyptians. PwD through alternative care services, provision of temporary custody at local level. Overall, improvement of social situation of vulnerable groups has a direct impact on poverty reduction and vice-versa.

6. Expected impact on the environment

The reform measure is not expected to have an impact on the environment.

7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Municipality social plans	low	Cooperation with local actors

⁴³ The target is according to the IPA indicator

⁴⁴ 350,000,000 ALL (125 ALL/EUR)

drafted and budgeted.		to build capacities for social plans.
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6. THE COST AND FINANCING OF STRUCTURAL REFORMS

Expected expenditures in the state budget include funds for key structural reforms for the upcoming medium-term period. Budgetary expenditures are spread across the structural reforms included in the Economic Reform Programme 2020-2022. Details of the budgetary implications of the reforms are found in table 10a and table 10b of Annex 1. The projected expenditures of the budget of the Republic of Albania also include expenditures for key structural reforms in the following period.

7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The Economic Reform Programme (ERP) 2020-2022 was prepared and drafted through the close collaboration between the Ministry of Finance and Economy and the various line ministries and the Bank of Albania. Specifically, the contributing ministries are: Ministry of Finance and Economy; Ministry of Infrastructure and Energy; Ministry of Agriculture and Rural Development; Ministry of Health and Social Protection, Ministry of Education, Sports and Youth, Ministry of Tourism and Environment, and the Bank of Albania.

On August 6, 2019 was passed the Order of the Prime Minister⁴⁵, which sets out the framework for the coordination of the ERP process at the central level. The Order empowers the Ministry of Finance and Economy as the National Coordinator of the ERP for Albania, as well as provides for the establishment of supporting inter-institutional group and secretariat in order to coordinate the process throughout its stages from inception to approval.

Institutional coordination has improved in several ways. A greater degree of ownership and accountability is more evident, mainly as a result of the new order of the PM and its provisions. Nevertheless, this new approach has also brought about challenges relating to inter institutional red tape when it comes to validating and approving contributions intended for the ERP.

The ERP 2020-2022 cycle began on 18 June 2019 during the Annual Regional Meeting of ERP Coordinators in Brussels. Three capacity building events were organised in 2019 with regard to the ERP 2020-2022 cycle. Two were organised by CEF as part of its FISR project with the European Commission, respectively in May and October. The other capacity building event was organised with the support of the TAIEX instrument in October. It was a five-day expert mission where representatives from line ministries involved in the ERP process partook and exchanged experiences, and contributions for the ERP were revised under the guidance of the TAIEX experts.

The overall process was significantly affected by the earthquake of November 26 that hit specific regions of Albania. As a result of all government efforts being focused to provide relief in the aftermath of the disaster, a considerable delay was unavoidably attributed to the drafting and preparation of the ERP. Consequently, this was reflected as a domino effect on the remaining next steps, including inter alia the public consultation process, revision of the final draft and initiation of the internal legal procedures for adoption of the Decision of the Council of Ministers for the ERP 2020-2022.

The ERP draft document was shared for public consultation with the development and integration partners, and the civil society. The feedback that was sent back have been included as annex to this document (Annex II).

⁴⁵ Order of Prime Minister No. 107, 06.08.2019 "On the creation of the inter-ministerial group and technical secretariat for the coordination, preparation and drafting of the Economic Reform Programme (ERP) of Albania"

ANNEX I⁴⁶

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year 2018	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	12.663	4.1	2.7	4.1	4.0	4.0
2. Current GDP at market prices	B1*g	12.783	5.1	3.6	5.2	5.8	5.9
Components of real GDP							
3. Private consumption expenditure	P3	10.007	3.2	2.7	1.9	3.5	2.7
4. Government consumption expenditure	P3	1.377	-1.2	5.4	4.4	2.2	2.2
5. Gross fixed capital formation	P51	3.069	2.9	0.5	8.4	1.5	5.2
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.142	1.1	-1.2	-1.1	-1.1	-1.0
7. Exports of goods and services	P6	3.953	3.0	3.9	6.7	7.4	7.6
8. Imports of goods and services	P7	5.886	3.9	3.1	4.4	3.8	4.5
Contribution to real GDP growth							
9. Final domestic demand		14.5	3.1	2.9	4.0	3.4	3.6
10. Change in inventories and net acquisition of valuables	P52+P53	0.1	1.9	0.0	0.0	0.0	0.0
11. External balance of goods/services	B11	-1.9	-0.9	-0.2	0.1	0.6	0.4

Table 1b: Price developments

Percentage changes, annual averages		Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. GDP deflator	%, yoy	0.9	0.8	1.1	1.7	1.8
2. Private consumption deflator	%, yoy	1.8	2.1	1.0	2.6	2.4
3. HICP	%, yoy	1.8	1.7	:	:	:
4. National CPI change	%, yoy	2.0	1.4	2.1	2.4	2.8
5. Public consumption deflator	%, yoy	3.3	1.5	1.5	1.5	1.5
6. Investment deflator	%, yoy	0.5	0.0	0.0	0.0	0.0
7. Export price deflator (goods & services)	%, yoy	2.4	-2.5	1.0	0.5	0.5
8. Import price deflator (goods & services)	%, yoy	-1.5	0.5	0.5	1.5	1.0

Table 1c: Labour markets developments

	ESA Code	Year 2018	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022

⁴⁶ Please replace in the tables the placeholders (Year X+/-n) indicating the programme period with the concrete years, with the year X being the year of the submission deadline

		Level	Level/Rate of change				
1. Population (thousands)			2,866.4	2,862.4	2,856.7	2,850.5	2,843.5
2. Population (growth rate in %)			-0.2	-0.1	-0.2	-0.2	-0.2
3. Working-age population (persons) ⁴⁷			1,974	1,965	1,961	1,956	1,952
4. Participation rate			68.3	69.7	71.0	71.7	72.2
5. Employment, persons ⁴⁸			1,175	1,202	1,242	1,264	1,277
6. Employment, hours worked ⁴⁹			:	:	:	:	:
7. Employment (growth rate in %)			2.1	2.3	3.3	1.8	1.0
8. Public sector employment (persons)			169.9	169.9	169.9	169.9	169.9
9. Public sector employment (growth in %)			3.4	0.0	0.0	0.0	0.0
10. Unemployment rate ⁵⁰			12.8	12.2	10.8	9.9	9.4
11. Labor productivity, persons ⁵¹		1375.2	2.0	0.4	0.8	2.2	3.0
12. Labor productivity, hours worked ⁵²			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Table 1d: Sectorial balances

Percentages of GDP	ESA code	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-6.8	-8.0	-7.2	-6.7	-6.3
<i>of which:</i>						
- Balance of goods and services		-13.8	-14.4	-13.5	-12.7	-11.9
- Balance of primary incomes and transfers		6.2	5.7	5.6	5.2	4.9
- Capital account		0.8	0.8	0.8	0.7	0.7
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-6.0	-6.8	-5.7	-5.5	-5.3
3. Net lending/borrowing of general government		-1.6	-1.9	-2.2	-2.0	-1.7
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	1,630.9	1,688.9	1,777.2	1,879.8	1,990.2
Investment ratio (% of GDP)		24.1	23.4	24.1	23.2	23.0
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		0.9	1.2	1.3	1.3	1.4
2. Industry (excluding construction)		14.1	-1.0	5.4	5.0	5.4

⁴⁷ Age group of 15-64 years⁴⁸ Occupied population, domestic concept national accounts definition⁴⁹ National accounts definition⁵⁰ Harmonized definition, Eurostat; levels⁵¹ Real GDP per person employed⁵² Real GDP per hour worked

3. Construction	2.8	0.3	8.9	3.6	3.2
4. Services	3.6	4.7	4.0	4.8	4.7

Table 1f: External sector developments

Bn mill. unless otherwise indicated	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022
1. Current account balance (% of GDP)	-6.8	-8.0	-7.2	-6.7	-6.3
2. Export of goods	1.0	0.9	1.0	1.1	1.2
3. Import of goods	3.9	4.1	4.3	4.6	4.8
4. Trade balance	-2.9	-3.2	-3.4	-3.5	-3.6
5. Export of services	3.1	3.3	3.6	3.9	4.2
6. Import of services	2.0	2.1	2.2	2.3	2.4
7. Service balance	1.1	1.2	1.4	1.6	1.7
8. Net interest payments from abroad	:	:	:	:	:
9. Other net factor income from abroad	0.0	0.0	0.0	0.0	0.0
10. Current transfers	0.9	0.9	0.9	0.9	0.9
11. <i>Of which</i> from EU	:	:	:	:	:
12. Current account balance	-0.9	-1.1	-1.0	-1.0	-1.0
13. Capital and financial account	1.2	1.1	1.3	1.3	1.3
14. Foreign direct investment	1.0	1.0	1.1	1.2	1.2
15. Foreign reserves	0.4	0.0	0.2	0.2	0.3
16. Foreign debt	6.7	:	:	:	:
17. <i>Of which</i> : public	4.3	4.2	4.4	4.2	4.6
18. <i>O/w</i> : foreign currency denominated	:	:	:	:	:
19. <i>O/w</i> : repayments due	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	123.5	122.2	122.2	122.2	122.2
<i>p.m. Exchange rate vis-à-vis EUR (end-year)</i>	-7.4	-1.0	0.0	0.0	0.0
21. Exchange rate vis-à-vis EUR (annual average)	127.6	123.0	123.0	123.0	123.0
<i>p.m. Exchange rate vis-à-vis EUR (annual average)</i>	-4.9	-3.6	0.0	0.0	0.0
22. Net foreign saving (lines 21-25: percentages of GDP)	6.8	8.0	7.2	6.7	6.3
23. Domestic private saving	13.3	11.4	13.7	13.5	13.4
24. Domestic private investment	18.5	17.8	17.6	17.6	17.5
25. Domestic public saving	4.1	4.1	3.3	3.0	3.3
26. Domestic public investment	5.7	5.6	6.5	5.5	5.6

Table 1g: Sustainability indicators

	Dimension	Year 2015	Year 2016	Year 2017	Year 2018	Year 2019
1. Current Account Balance	% of GDP	-8.6	-7.6	-7.5	-6.8	-8.0
2. Net International Investment Position	% of GDP	-43.1	-45.0	-46.6	-50.7	-51.1
3. Export market shares	%, y-o-y	-6.7	12.8	8.3	-21.4	:
4. Real Effective Exchange Rate ⁵³	%, y-o-y	0.5	-3.7	-4.3	-7.4	-3.9
5. Nominal Unit Labor Costs	%, y-o-y	:	:	:	:	:
6. Private sector credit flow	% of GDP	15.1	14.3	15.1	13.6	12.3

⁵³ Please explain the methodology used (deflators, trade weighing, etc.)

7. Private sector debt	% of GDP	37.0	37.1	36.4	35.3	36.4
8. General Government Debt	% of GDP	72.7	72.4	70.1	67.9	66.2

Table 2a: General government budgetary prospects

	ESA code	Year	Year	Year	Year	Year	Year	
		2018	2018	2019	2020	2021	2022	
		Level (bn NCU)	% of GDP					
Net lending (B9) by sub-sectors								
1. General government	S13	-26.2377	-1.6	-1.9	-2.2	-2.0	-1.7	
2. Central government	S1311	-20.8935	4.4	4.0	3.7	4.0	4.0	
3. State government	S1312	:	:	:	:	:	:	
4. Local government	S1313	-24.6239	-1.5	-1.6	-1.6	-1.6	-1.5	
5. Social security funds	S1314	19.2796	-4.4	-4.4	-4.3	-4.3	-4.1	
General government (S13)								
6. Total revenue	TR	449.9094	27.6	27.4	28.7	27.7	27.6	
7. Total expenditure ⁵⁴	TE	476.1471	29.2	29.3	30.9	29.6	29.3	
8. Net borrowing/lending	EDP.B9	-26.2377	-1.6	-1.9	-2.2	-2.0	-1.7	
9. Interest expenditure	EDP.D41	36.5134	2.2	2.1	2.3	2.5	2.5	
10. Primary balance ⁵⁵		10.2757	0.6	0.2	0.1	0.5	0.8	
11. One-off and other temporary measures ⁵⁶		:	:	:	:	:	:	
Components of revenues								
12. Total taxes (12 = 12a+12b+12c)		270.8369	16.6	16.5	16.9	16.3	16.3	
12a. Taxes on production and imports	D2	194.6673	11.9	11.2	11.8	11.5	11.5	
12b. Current taxes on income and wealth	D5	41.7089	2.6	3.1	3.0	2.5	2.5	
12c. Capital taxes	D91	34.4607	2.1	2.2	2.1	2.2	2.2	
13. Social contributions	D61	91.8501	5.6	5.8	5.8	5.8	5.8	
14. Property income	D4	0.0381	0.0	0.0	0.0	0.0	0.0	
15. Other (15 = 16-(12+13+14)) ⁵⁷		87.1844	5.3	5.1	6.0	5.6	5.5	
16 = 6. Total revenue	TR	449.9094	27.6	27.4	28.7	27.7	27.6	
p.m.: Tax burden (D2+D5+D61+D91-D995) ⁵⁸		362.6870	22.2	22.2	22.7	22.1	22.1	
Selected components of expenditures								
17. Collective consumption	P32	153.2943	9.4	9.5	9.5	9.4	9.2	

⁵⁴ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9

⁵⁵ The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)

⁵⁶ A plus sign means deficit-reducing one-off measures

⁵⁷ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)

⁵⁸ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate

18. Total social transfers	D62 + D63	190.2531	11.7	12.0	12.0	11.8	11.6
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	190.2531	11.7	12.0	12.0	11.8	11.6
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	36.5134	2.2	2.1	2.3	2.5	2.5
20. Subsidies	D3	1.8826	0.1	0.1	0.1	0.1	0.1
21. Gross fixed capital formation	P51	92.6764	5.7	5.6	6.8	5.8	5.8
22. Other (21 = 22-(16+17+18+19+20) ⁵⁹		1.5274	0.1	0.1	0.2	0.2	0.2
23. Total expenditures	TE ⁶⁰	476.1471	29.2	29.3	30.9	29.6	29.3
p.m. compensation of employees	D1	93.2078	5.7	5.7	5.8	5.5	5.3

Table 2b: General government budgetary prospects

	ESA code	Year	Year	Year	Year	Year
		2018	2019	2020	2021	2022
bn NCU						
1. General government	S13	-26.24	-32.90	-39.70	-36.87	-32.90
2. Central government	S1311	-20.89	-29.93	-36.95	-34.52	-35.45
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-24.62	-26.64	-28.79	-30.13	-30.13
5. Social security funds	S1314	19.28	23.67	26.05	27.78	32.68
6. Total revenue	TR	449.91	462.47	509.67	520.38	549.52
7. Total expenditure ⁶¹	TE	476.15	495.37	549.37	557.25	582.42
8. Net borrowing/lending	EDP.B9	-26.24	-32.90	-39.70	-36.87	-32.90
9. Interest expenditure	EDP.D4 1 incl. FISIM	36.51	35.80	40.95	46.11	48.84
10. Primary balance ⁶²		10.28	2.90	1.25	9.24	15.95
11. One-off and other temporary measures ⁶³		:	:	:	:	:
12. Total taxes (12 = 12a+12b+12c)		270.84	278.06	299.97	305.67	324.32
12a. Taxes on production and imports	D2	194.67	189.23	209.12	216.75	229.67
12b. Current taxes on income and wealth	D5	41.71	51.71	52.85	47.57	50.47
12c. Capital taxes	D91	34.46	37.11	38.00	41.36	44.18
13. Social contributions	D61	91.85	97.34	103.02	108.84	115.23
14. Property income	D4	0.04	0.29	0.50	0.30	0.50

⁵⁹ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8⁶⁰ Adjusted for the next flow of swap-related flows, so the TR-TE=EDP.B9⁶¹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9⁶² The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)⁶³ A plus sign means deficit-reducing one-off measures

15. Other (15 = 16-(12+13+14)) ⁶⁴		87.18	86.78	106.18	105.56	109.47
16 = 6. Total revenue	TR	449.91	462.47	509.67	520.38	549.52
p.m.: Tax burden (D2+D5+D61+D91-D995) ⁶⁵		362.69	375.40	403.00	414.51	439.55
17. Collective consumption	P32	153.29	160.06	169.60	175.99	182.64
18. Total social transfers	D62 + D63	190.25	202.29	213.19	221.79	230.74
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	190.25	202.29	213.19	221.79	230.74
19 = 9. Interest expenditure	EDP.D4 1	36.51	35.80	40.95	46.11	48.84
20. Subsidies	D3	1.88	1.49	1.29	1.49	1.49
21. Gross fixed capital formation	P51	92.68	94.43	121.31	108.71	115.29
22. Other (21 = 22-(16+17+18+19+20)) ⁶⁶		1.53	1.29	3.03	3.16	3.41
23. Total expenditures	TE ⁶⁷	476.15	495.37	549.37	557.25	582.42
p.m. compensation of employees	D1	93.21	96.72	102.85	103.66	106.22

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year	Year	Year	Year	Year
		2018	2019	2020	2021	2022
1. General public services	1	5.3	2.4	2.2	2.1	2.0
2. Defense	2	0.7	0.8	0.9	0.9	1.2
3. Public order and safety	3	1.7	1.7	1.7	1.8	1.7
4. Economic affairs	4	3.1	2.7	2.3	2.2	2.2
5. Environmental protection	5	0.1	0.1	0.1	0.1	0.1
6. Housing and community amenities	6	2.4	1.8	1.6	1.6	1.6
7. Health	7	3.0	3.0	3.0	3.0	3.1
8. Recreation, culture and religion	8	0.5	0.2	0.2	0.2	0.3
9. Education	9	3.2	2.5	2.5	2.9	2.9
10. Social protection	10	9.3	9.3	9.2	8.9	8.6
Other relevant variables*		0.0	4.9	7.2	5.9	5.5
11. Total expenditure (item 7 = 23 in Table 2)	TE	29.2	29.3	30.9	29.6	29.3

*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	Year	Year	Year	Year
		2018	2019	2020	2021	2022
1. Gross debt ⁶⁸		67.9	66.2	65.4	62.3	62.0

⁶⁴ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)

⁶⁵ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate

⁶⁶ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

⁶⁷ Adjusted for the next flow of swap-related flows, so the TR-TE=EDP.B9

⁶⁸ As defined in Regulation 3605/93 (not an ESA concept)

2. Change in gross debt ratio		-1.7	-0.7	-3.1	-0.3	
Contributions to change in gross debt						
3. Primary balance ⁶⁹		-0.63	-0.2	-0.1	-0.5	-0.8
4. Interest expenditure ⁷⁰	EDP D.41	2.24	2.1	2.3	2.5	2.5
5. Stock-flow adjustment		-1.6	-3.7	-3.0	-5.1	-2.0
<i>of which:</i>						
- Differences between cash and accruals ⁷¹		:	:	:	:	:
- Net accumulation of financial assets ⁷²		:	:	:	:	:
<i>of which:</i>						
- Privatization proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other ⁷³		:	:	:	:	:
p.m. implicit interest rate on debt ⁷⁴		3.4	3.2	3.7	4.0	4.2
Other relevant variables						
6. Liquid financial assets ⁷⁵		3.0	1.6	1.8	0.1	1.5
7. Net financial debt (7 = 1 - 6)		64.9	64.5	63.6	62.2	60.5

Table 5: Cyclical developments

% of GDP	ESA Code	Year	Year	Year	Year	Year
		2018	2019	2020	2021	2022
1. Real GDP growth (% , y-o-y)	B1g	4.1	2.7	4.1	4.0	4.0
2. Net lending of general government	EDP.B.9	-1.6	-1.9	-2.2	-2.0	-1.7
3. Interest expenditure	EDP.D.4 1	2.2	2.1	2.3	2.5	2.5
4. One-off and other temporary measures ⁷⁶		:	:	:	:	:
5. Potential GDP growth (%) ⁷⁷		3.4	3.5	3.6	3.6	3.6
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		0.0	-0.8	-0.2	0.2	0.6
7. Cyclical budgetary component		0.2	-0.2	0.2	0.1	0.1
8. Cyclically-adjusted balance (2-7)		-1.9	-1.7	-2.4	-2.1	-1.8
9. Cyclically-adjusted primary balance (8+3)		0.4	0.4	-0.1	0.4	0.7
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year	Year	Year	Year	Year
	2018	2019	2020	2021	2022

⁶⁹ Cf. item 10 in Table 2⁷⁰ Cf. item 9 in Table 2⁷¹ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant⁷² Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant⁷³ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant⁷⁴ Proxied by interest expenditure divided by debt level of the previous year⁷⁵ AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares)⁷⁶ A plus sign means deficit-reducing one-off measures⁷⁷ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP)

1. GDP growth (% , y-o-y)					
Previous programme	4.2	4.3	4.4	4.5	:
Latest update	4.1	2.7	4.1	4.0	4.0
Difference (percentage points)	0.0	-1.6	-0.3	-0.4	:
2. General government net lending (% of GDP)					
Previous programme	-2.0	-1.9	-1.6	-1.2	:
Latest update	-1.6	-1.9	-2.2	-2.0	-1.7
Difference	0.4	-0.1	-0.6	-0.8	:
3. General government gross debt (% of GDP)					
Previous programme	69.1	65.5	63.6	59.9	:
Latest update	67.9	66.2	65.4	62.3	62.0
Difference	-1.2	0.7	1.8	2.4	:

Table 7a: Contingent liabilities

% of GDP	Year 2019	Year 2020
Public guarantees	2.9	2.7
<i>Of which: linked to the financial sector</i>	:	:

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

	Dimension	Year	Year	Year	Year	Year
		2018	2019	2020	2021	2022
Short-term interest rate ⁷⁸	Annual average	-0.3	-0.4	-0.5	-0.5	-0.5
Long-term interest rate	Annual average	0.5	-0.3	-0.4	-0.3	-0.3
USD/EUR exchange rate	Annual average	1.2	1.12	1.11	1.11	1.11
Nominal effective exchange rate	Annual average	:	:	:	:	:
Exchange rate vis-à-vis the EUR	Annual average	127.59	123.01	123.01	123.01	123.01
Global GDP growth, excluding EU	Annual average	3.8	3.2	3.3	3.4	3.4
EU GDP growth	Annual average	2	1.4	1.4	1.4	1.4
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	4.1	0.4	2.1	2.5	2.5
Oil prices (Brent, USD/barrel)	Annual average	:	63.3	57.4	56.1	56.1

Table 9: Selected employment and social indicators⁷⁹⁷⁸ If necessary, purely technical assumption⁷⁹ Given the disparate availability of data and variety of definitions used for indicators, countries should use EUROSTAT data when

	Data source ⁸⁰	Year	Year	Year	Year	Year
		2015	2016	2017	2018	Q.3/2019
1. Labour market participation rate (%) total (20-64 years old)	INSTAT	64,2	66,2	66,8	68,3	69,8
-male	INSTAT	73,4	74,1	75,8	76,9	77,8
-female	INSTAT	55,1	58,3	57,7	59,7	77,7
2. Employment rate (%) total (20-64 years old)	INSTAT	52,9	55,9	57,4	59,3	61,5
-male	INSTAT	60,5	61,9	64,3	66,7	68,5
-female	INSTAT	45,5	49,7	50,3	52,4	54,7
3. Unemployment rate (%) total	INSTAT	17,5	15,6	14,1	12,8	11,8
-male	INSTAT	17,5	16,4	15,1	13,2	11,9
-female	INSTAT	17,4	14,6	12,8	12,3	11,8
4. Long-term unemployment rate (%) total	NES	47,5	58	51	50	48
-male	NES	51	48	49	45	46
-female	NES	49	52	51	55	54
5. Youth unemployment (15-24 years old) rate (%) total	INSTAT	33,2	28,9	25,9	23,1	21,4
-male	INSTAT	32,3	29,7	27,0	23,1	20,6
-female	INSTAT	34,7	27,8	24,0	23,1	22,4
6. Young people (15-24 years old) not in employment, education or training (NEET), in %	INSTAT	32,8	30,0	29,7	26,5	24,8
7. Early school leavers, in % (Eurostat definition)						
8. PISA Rating						
9. PIAAC rating						
10. Participants rate in early childhood education or care						
11. Gini coefficient						
12. Inequality of income distribution S80/S20 (income quintile ratio)	e					
13. Social protection expenditure in % of GDP	e					
14. Health expenditure in % of GDP	e					
15. At-risk-of-poverty before social transfers, % of the population	e					
16. Poverty rate (Please indicate which data are available for your country)						
17. Poverty gap (Please indicate which data are available for your country)						
Other indicators used in the EU Social Scoreboard						
18. Real adjusted GDHI – per capita in PPS (Index 2008=100)						

available. In case of data from national sources, a footnote should be added for each indicator indicating how it is defined. In case no data are available for an indicator, please see whether any data would be available for a similar indicator and explain so. It is recommended that year X=2017. In case that no data are available for the year 2017, the data available for previous years (2016, 2015) shall be introduced in the respective columns. For all indicators the values shall be inserted in the table, not the year-on-year change of the values as in some other tables.

⁸⁰ For the indicators marked "e", Eurostat indicators should be available for all enlargement countries.

19. Impact of social transfers (other than pensions) on poverty reduction					
20. Self-reported unmet need for medical care					
21. Individuals' level of digital skills (% of individuals with basic or above basic overall digital skills)					

Table 10a: Costing of structural reform measures

Reform measure 01: Further liberalisation of the energy market⁸¹					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0

Reform measure 02: Diversification of energy sources through the promotion of energy sources and energy efficiency improvements					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	0	345,227.8	0	0	345,227.8
2021	0	210,306.3	0	0	210,306.3
2022	0	108,097.3	0	0	108,097.3

Reform measure 03: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana					
Year	Salaries ⁸²	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020		69.8 mn	3.72 mn	6.06 mn	79.58 mn
2021		0	0.87 mn	5.00 mn	5.87 mn
2022		0	0	5.00 mn	5.00 mn

Reform measure 04: Defragmentation and consolidation of agricultural land					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	9880	242915		161943	414738
2021	9880	251012			260892
2022	9880	255061			264941

Reform measure 05: Reform on the water and waste water sector					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	416,667	345,833	3,333,333	85,267,167	89,363,000
2021	416,667	345,833	3,333,333	93,885,750	94,648,250
2022	416,667	345,833	3,333,333	95,719,083	99,814,916

Reform measure 06: Increasing service standards in the tourism sector					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0

⁸¹ 70 mn EUR for completion of Elbasan-Bitola interconnection line (50 mn euro KfW loan; 15 mn euro WBIF grant; 5 mn euro OST funding). No direct impact on the state budget

⁸² The Construction company awarded shall, as appropriate, determine the values

Reform measure 07: Property tax reform and establishment of a fiscal cadastre					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	24192	1300000			1324192
2021	24192	1000000			1024192

Reform measure 08: Developing a legal framework in support of innovative start-ups					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0

Reform measure 09: Improving access to finance for SMEs					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	27,259	0	0	0	27,259
2021	27,259	0	0	0	27,259
2022	27,259	0	0	0	27,259

Reform measure 10: Modernisation of retail payment instruments					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0

Reform measure 11: Improve institutional capacity of the research and innovation system					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0

Reform measure 12: Development of the broadband infrastructure for digital economy					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	5500	520000			525500
2021	5500				5500
2022	5500				5500

Reform measure 13: Facilitating cross-border movement of goods					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	0	0	0	60000	60000
2021	0	0	0	190000	190000
2022	0	0	0	2500000	2500000

Reform measure 14: Finalisation of the pre-university curricular reform, training and hiring of teachers					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	0	0	0	0	0
2021	0	0	0	0	0
2022	0	0	0	0	0

Reform measure 15: Inclusive education					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	468000	0	0	0	468000
2021	491400	0	0	0	491400
2022	514800				514800 ⁸³

Reform measure 16: Modernisation of the early childhood education system financing					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020			2.64 mn		2.64 mn
2021			2.64 mn		2.64 mn
2022			2.64 mn		2.64 mn

Reform measure 17: Improve the quality and coverage of VET while ensuring linkages with the labour market					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2020	578,512	1,875,180.00	0	5,802,647	8,256,339
2021	578,512	2,309,380	0	7,268,200	10,156,092
2022	578,512	1,824,380	0	4,753,500	7,156,392

Reform measure 18: Improving the employability of the most vulnerable unemployed jobseekers through better targeted EPPs and employment services					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
<i>Investment for reconstruction and reorganization of employment offices, regional and local⁸⁴</i>					
2020	0	0	0	803,804	803,804
2021	0	0	0	- ⁸⁵	- ⁸⁶
2022	0	0	0	-	-
<i>Mediations carried out by Employment Offices)</i>					
2020	54,224	0	0	0	54,224
2021	62,304	0	0	0	62,304
2022	-21,043	0	0	0	-21,043 ⁸⁷
<i>Implementation of employment promotion programs</i>					
2020		0	487,805	0	487,805
2021		0	406,504	0	406,504
2022		0	-	0	- ⁸⁸
<i>Training in VTC</i>					
2020		0	115,401	0	115,401
2021		0	16,092	0	16,092
2022		0	8,170	0	8,170
<i>Benefits from unemployment</i>					
2020			556,185		556,185
2021			330,057		330,057

⁸³ Planning is done by referring to the average salary of an assistant teacher

⁸⁴ DCM no.554 (31.7.2019) approved the establishment, organization and functioning of the National Employment and Skills Agency (NESAs). MFE is currently in the process of structuring NESAs, and budget approvals will be calculated after the structures are approved.

⁸⁵ In 2021 and 2022 the same budget is planned for this product, so there is no additional budget

⁸⁶ In 2021 and 2022 the same budget is planned for this product, so there is no additional budget

⁸⁷ A smaller budget is planned in 2022 compared to 2021

⁸⁸ In 2021 and 2022 the same budget is planned for this product, so there is no additional budget

			sources					
2020	414738							414738
2021	260892							260892
2022	264941							264941

Reform measure 05: Reform on the Water and Waste Water Sector								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	85267167	0	0	0	34295650	11789517	0	131352334
2021	93885750	0	0	0	29393950	27825000	0	151104700
2022	95719083	0	0	0	43052283	12500000	0	151271366

Reform measure 06: Increasing service standards in the tourism sector								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0

Reform measure 07: Property tax reform and establishment of a fiscal cadastre								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	24192	0	0	0	1300000	0	0	1324192
2021	24192	0	0	0	1000000	0	0	1024192
2022	24192	0	0	0	0	0	0	24192

Reform measure 08: Developing a legal framework in support of innovative start-ups								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0

Reform measure 09: Improving access to finance for SMEs								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	27,259							27,259
2021	27,259							27,259
2022	27,259							27,259

Reform measure 10: Modernisation of retail payment instruments								
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Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0

Reform measure 11: Improve institutional capacity of the research and innovation system								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0

Reform measure 12: Development of the broadband infrastructure for digital economy								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	5500	0	0	0	520000	0	0	525500
2021	5500	0	0	0	0	0	0	5500
2022	5500	0	0	0	0	0	0	5500

Reform measure 13: Facilitating cross border movement of goods								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans ⁹³	TBD	Total
2020						60000		60000
2021						190000		190000
2022						2.500000		2500000

Reform measure 14: Finalisation of the pre-university curricular reform, training and hiring of teachers								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	0	0	0	0	0	0	0	0
2021	0	0	0	0	0	0	0	0
2022	0	0	0	0	0	0	0	0

Reform measure 15: Inclusive education								
Year	Central Budget	Local Budgets	Other national public	IPA funds	Other grants	Project loans	TBD	Total

⁹³ Overall cost of the project is 10 million USD for 5 years

			finance sources					
2020	468000	0	0	0	0	0	0	468000
2021	491400	0	0	0	0	0	0	491400
2022	514800							514800

Reform measure 16: Modernisation of the early childhood education system financing								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
Total	2.64 mn							2.64 mn

Reform measure 17: Improve the quality and coverage of VET while ensuring linkages with the labour market								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	5506339	0	0	0	1,250,000	1,500,000		8,256,339
2021	5356092	0	0	0	2,100,000	2,700,000		10,156,092
2022	5206392	0	0	0	1,150,000	800,000		7,156,392

Reform measure 18: Improving the employability of the most vulnerable unemployed jobseekers through better targeted EPPs and employment services								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2019							6,650	6,650
2020							_ ⁹⁴	
2021							-	
2022							-	

Reform measure 19: Strengthening social protection, and social inclusion measures								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2020	2.8 mn							2.8 mn
2021	3.6 mn							3.6 mn
2022	4.4 mn							4.4 mn

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2019-2021⁹⁵

	Further liberalisation of the energy market	Stage of reform implementation (1-5)
Activities	Liberalisation of the electricity market (consumers in the free	4

⁹⁴ The contract has not been signed yet for three years⁹⁵ 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

planned for 2019	market).	
	The unbundling of the distribution activity from the supply.	4
	Establishment of Albanian Power Exchange	3
	Security of supply	3
Description of implementation and explanation if partial or no implementation	<p>Currently, 98 customers are connected in the 35 kV grid, but until now around 1/3 of customers (28 customers) connected to the 35 kV grid, have chosen to be supplied in the unregulated market. The rest is still supplied by last resort supplier but with deregulated high prices according to the methodology approved by ERE.</p> <p>By the end of 2019, for all the customers connected in 35 kV, OSHEE S.A will not be able to provide electricity to these customers as a Last Resort Supplier, according to the amendments of the law "On Power Sector", amended.</p>	
	<p>The set up of three daughter companies as stipulated by the Order of the MIE No 157 of 12.02.2018 "On the set up of three companies controlled by the Electricity Distribution Operator", was completed in March 2018 and ERE has granted licenses to those three new companies.</p> <p>OSHEE S.A. through its letter No 21171 of 26.11.2018 to the Minister of Infrastructure and Energy requested additional guidelines concerning functional unbundling of OSHEE S.A. Further, OSHEE requested a suitable deadline to establish the proper executive structures and to manage the processes of the power portfolio in compliance with the functions and activities that each operator will carry out. Last, OSHEE asked for the review and completion of the legal framework in compliance with its obligations to ensure a continuous supply and according to the quality standards for its clients.</p> <p>By decision No. 264, dating from 20th of December 2018, ERE agreed to set a transitory period of 12 months for the license transfer. Until the completion of the transitory period of 12 months the operation activities of the electricity distribution system, power supply and the obligation of universal supply will continue to be carried out by OSHEE S.A http://www.ere.gov.al/doc/VENDIM_NR.264_2018_opt.pdf</p> <p>OSHEE submitted to MIE letter no. 18103 dated 29.08.2019, informing on the preparatory work carried out by it in the framework of this process, and also proposed to undertake some other steps in coordination with MEI in order to finalise the unbundling process according to the deadlines set by the ERE (decision no. 264 dated 20.12.2018).</p> <p>To this purpose, the Minister of Infrastructure and Energy issued his Order No 341 of 17.09.2019 "On the establishment of a Working Group for analysing and evaluating legal solutions for the unbundling of OSHEE".</p> <p>Currently, the Working Group has analysed and evaluated the sub legal acts since the beginning of this process and the final report and recommendations of the Working Group will be submitted to the Minister of Infrastructure and Energy, who will decide if the sublegal acts proposed by OSHEE in the framework of the unbundling process, are necessary to happen and if so the work will continue drafting them.</p> <p>However, the effective unbundling of OSHEE will happen starting from 1st January 2020.</p>	
	The Council of Ministers adopted decision No. 322, dated 15.5.2019 "On the establishment and determination of the legal form and structure of the capital ownership of the market operator".	

	<p>The Council of Ministers adopted decision No. 609, dated 11.9.2019 "On the Determination of Criteria and Procedures for the Selection of Shareholders in the Market Operator's Capital"; a working group has been created to draft the criteria and evaluate the selection of shareholders in the market capital. This process is ongoing.</p>	
	<p>Investments in the distribution/ transmission grid and generating system (Completion of the project in the transmission system. Construction of the 400 kV Interconnection line (Albania) - (NRM) Activities planned 2019 - 2021 - Implementation of the project Elbasan (Albania) - Bitola (NRM) 400 kV interconnection line: Lot 1 & Lot.</p> <p>The construction of the 400 KV of Elbasan-Bitola interconnection line, is currently in the bidding process for the selection of contractors (for implementation contracts) for both Project Lots.</p> <p>On 10 July 2019, the concerned Applicants/Companies submitted their applications for the pre-qualification phase. OST is currently in the process of evaluating the Selection of Applicants that will pass this stage, (after receiving no-objection from the kFw bank) OST will proceed further with the bidding process, until the Selection of winners Applicants / Companies for each Lot of the project.</p> <p>Further reduction of distribution losses - Level of electricity losses in distribution grid Year 2018 – 23.96%; Year 2019 (January – July) – 23.10%</p> <p>Further increment of bill collection rates - Bill Collection Rate Year 2018 – 101.9% Year 2019 (January – July) – 96.56%</p>	

	Diversification of energy sources through the promotion of renewable energy sources and energy efficiency improvements	Stage of reform implementation (1-5)
Activities planned for 2019	1. Further improvement of the legal and regulatory framework on Renewables and Energy Efficiency sector.	1
	2. The implementation of the Project "Akernia PV Power Plant 100 MW"	4
	3. Implementing Projects on Energy Efficiency	4
Description of implementation and explanation if partial or no implementation	<p>Secondary legislation under the Law 7/2017 fully aligned with Directive 2009/72 / EC, is not fully completed. Part of the bylaws have been adopted/revised in 2019.</p> <p>1. RES Action Plan that sets out the roadmap for achieving the national target of RES consumption (38%) in 2020 it was revised (DCM 580, date 28.08.2019) with new objectives that foresees the expansion of installed PV capacities from 120 MW to 490 MW and the decrease of Hydropower capacities installed from 600 MW to 57 MW.</p>	5
	2. A Net-metering scheme for the buy-in of excess energy produced by small self-producers is in operation since June approved Based on the point 4 of article 15 of the Law No. 7/2017, was approved the Minister Directive No. 3, date 20.06.2019 "For the approval of the facilitate procedure for authorisation for the connection on the distribution system of small renewable projects of solar electricity produced by self-producers".	3
	1. Albania has adopted a series of Laws and regulations that are intended to contribute to national energy efficiency increase: Law No 124/2015 of 12.11.2015 "On energy efficiency", which is partially aligned with Directive 2012/27/EU. MIE with the assistance of the European Bank for Reconstruction and Development (EBRD) is reviewing the existing Law aiming its full approximation with the	3

	provisions of the Directive 2012/27/EU. The amendments will include the inclusion of elements currently absent from the Law No 124/2015 of 12.11.2015, including Article 4 “ <i>Building renovation</i> ”, Article 7 “ <i>Energy efficiency obligation schemes</i> ”, Article 14 “ <i>Promotion of efficiency in heating and cooling</i> ”, Article 15 “ <i>Energy transformation, transmission and distribution</i> ” and Article 24 “ <i>Review and monitoring of implementation</i> ”. The third draft of the amending Law is expected to be finalised by the end of October 2019 and a consultation process with the relevant stakeholders is going to take place by the end of November 2019. The revised Law on Energy Efficiency is expected to be adopted by the second quarter of 2020. Secondary legislation isn't fully completed. Part of the bylaws have been adopted/revised in 2019	
	2. Adoption of Regulation approved with the DCM No. 407 date 19.06.2019 “ <i>On the approval of the regulation on the categories, conditions, qualification and experience requirements for certifying of energy auditors</i> ”, which has been approved in the second quarter of 2019 as prescribed on the article 17 of the Law 124/2015 “ <i>On Energy Efficiency</i> ” that defines the procedure, categories, conditions and requirements of the qualification and professional experience of the Energy Audits.	1
	3. Adoption of Regulation approved with the DCM No 342 date 22.05.2019 “ <i>On the approval of the categories, conditions and qualification requirements for the energy managers at the large energy consumers</i> ”, prescribed on the article No. 10 of the Law 124/2015 “ <i>On Energy Efficiency</i> ”, that defines the procedure, categories, conditions and requirements of the qualification and professional experience of the Energy Managers.	1
	4. The establishment of the Energy Efficiency Fund is under preparation. The working group is supported by a consultant financed by UNDP. The draft documents are under developments and in consultation process.	
	Based on the Law Based on the Law No 116/2016 “ <i>On energy performance in buildings</i> ” that is partially aligned with the Directive 2010/31/EU on the energy performance of buildings. Consultancy is being provided by EBRD in preparing sub legislative measures for the DCMs that are planned to be prepared:	
	5. The draft DCM “ <i>On minimum requirements for energy performance of buildings and building elements</i> ”	
	6. The draft DCM “ <i>On Calculation Methodology for energy performance in building</i> ”, based on the Law No 116/2016 is being prepared and it foreseen to be approved within 2019.	
	The draft DCM “ <i>Regulation on Energy Performance Certification (EPC)</i> ” based on the Law No 116/2016 is being prepared and it foreseen to be approved within 2019.	

	Diversification of energy sources through the development of the gas sector	Stage of reform implementation (1-5)
Activities planned for 2019	Adoption of Gas Master Plan for Albania and the Project Identification Plan (approved by the DCM No. 87, dated 14.02.2018), which are considered National Sectorial Plan for the gas sector	
	Preparation by the Consultant SUEZ IPF6, of the preliminary technical design for the Albanian and Montenegrin part of the IAP pipeline, on the frame of the grant 2,5 Million Euro financing by WBIF	

	Finalised of the preparation by the Consultant COWI IPF4 of the prefeasibility study for the ALKOGAP project (Albania-Kosovo gas interconnection), on the frame of the grant 0,3 Million Euro financing by WBIF	
	Construction by the Trans Adriatic Pipeline AG (TAP AG) of the Initial Albanian Exit Facility (or IAEF) at the TAP gas-pipeline near the Compressor Station on the Fieri Municipality. (Refer to the DCM no. 233, dated 21.3.2017 "On the approval of a commitment agreement for the development of the gas market and the agreement on Local benefits, concluded between the Republic of Albania, acting through the Council of Ministers, and Trans Adriatic Pipeline AG, regarding the project Trans Adriatic Pipeline".). The investment for construction of the IAEF will be financed totally by TAP AG and is estimated around 3 – 4 Million Euro.	
	Starting the preparation of the Feasibility Study for the Under Ground Gas Storage in the Dumrea Region (UGS Dumrea), based on the decision 19-th Steering Committee of WBIF for the 20 Round of WBIF for approval financing grant of 1 Million Euro.	
	Starting the preparation of the Preparation of the detailed technical design of the gas-pipeline connecting Vlora TPP with the TAP project in the compression station in Fieri region. Based on the decision 19-th Steering Committee of WBIF for the 20 Round of WBIF for approval financing grant of 1.1 Million Euro.	
Description of implementation and explanation if partial or no implementation	Finalisation of the approval of GMP by National Council of Territory (Decision of NCT no. 2, dated 26.07.2018)	
	- Completed rerouting in the Albanian Territory; - Preparation of ESIA for Albanian Section; - Preparation of draft Preliminary design for Albanian Section. - The project will be completed on 4-th Q 2020	
	Preparation by the Consultant COWI IPF4 of the prefeasibility study for the ALKOGAP project, is completed on the December 2018	
	MIE, ALBGAS S.A. and TAP AG have concluded on the main technical parameters of the Initial Albanian Exit Facility (or IAEF) at the TAP gas-pipeline. TAP AG is preparing the procedures for the bid regarding the IAEF construction.	
	The Consultant McMottDonald has completed the TOR for this project. MIE has given “no objection”. WBIF Secretariat is in the process to select the Contractor for preparation of the project	

	Rehabilitation and construction of the railway segment Durrës-TIA-Tirana	Stage of reform implementation (1-5)
Activities planned for 2019	15 May 2019: Finished the Prequalification Stage of the tender that had started in April 2018 Tendering for the construction works.	5
	<i>July 2019: The EBRD has prepared and shared with the Client the Standard Tender Documents, for procurement stage is duly foreseen.</i>	5
	6M I 2019: HSH together with all the respective National Authorities Completed all the permissions and authorisations as per Albanian legislation for its commencement of a priority infrastructure project	5
	<i>August 2019: EBRD Consultant prepares the Tendering docs (TD)</i>	5
	3Q II 2019 to agree the construction of works, for rehabilitation	1

	works that can start without delay via completion of the procedures;	
Description of implementation and explanation if partial or no implementation	<i>September 2019: in the beginning of the upcoming month TD will be launched after the preparation of the Technical Requirement form</i>	1
	October-December: The procurement stage foreseen to be finalised	1
	<i>December 2019: the handling mechanism for Complaining period</i>	1
	End of 2019 to beginning of the 2020: The award of the contract and start of works are already foreseen with a duration of 30 months.	1

	Consolidation and defragmentation of agricultural land	Stage of reform implementation (1-5)
Activities planned for 2019	1. Creation of Land Information System (LIS) for 38,100 ha of agricultural land.	3
	2. Digitalization of agricultural land register for 20 administrative units.	5
Description of implementation and explanation if partial or no implementation	Because the procurement procedure failed, the central budget for 2019 is reduced by 30 million. Foreseen, to 15 million.	3

	Reform on the Water and Waste Water Sector	Stage of reform implementation (1-5)
Activities planned for 2019	Evaluate and optimize Performance contracts	4
	Drafting law "For water supply and sewerage services of urban waste waters"	4
	Drafting "National water supply and sewerage services sector strategy" 2019 – 2030	4
Description of implementation and explanation if partial or no implementation		

	Property tax reform and establishment of a fiscal cadastre	Stage of reform implementation (1-5)
Activities planned for 2019	2019 – Inception and specification (IT development environment established). This phase includes the preparation of requirements and designing of the system.	4
Description of implementation and explanation if partial or no implementation	In the beginning of 2019, two releases of the PTIS (Property Tax Information System) have been made: Version 1.0 - Improvements to registration functionality. Functionality for mass appraisal and tax assessment. Version 1.1 - Further improvements to registration functionality. Version 2.05 - This version supports all functionalities of current version in production and many other features are added. Version 2.2 - This version fulfils the requirements for methodology implementation and registration process. Hence, the tools to perform appraisal and tax assessment in all	

	<p>municipalities are now in place. The system can perform mass appraisal and tax assessment according to the Decision of Council of the Municipality (DCM). Most municipality DCM have been sent to GDPT.</p> <p>GDPT staff, in the role of the institution which leads from the legal and methodological point of view the immovable property tax, analysed all the DCM and sent an official legal and advisory interpretation for all the decisions in which adjustments to be in line with the methodology were needed.</p> <p>The cooperation with IPRO has continued in the beginning of 2019. The need of data for the fiscal cadastre has been even further specified and the request formalized. GDPT is in continuing cooperation with IPRO for receiving all the data as foreseen in the agreement. However, nowadays the GDPT is collaborating with National Agency of Cadastre, for integration of their database in Fiscal Cadastre System.</p> <p>GDPT as an institution, which assists and leads the local self-government units in the process of entering information and data into the central system, organized a roundtable on 23.05.2019. The focus of the discussion at this meeting was on the progress of the property tax reform (building) and related issues. The plans of the municipalities on data entry in the system and how the taxation and collection will be realized. The municipality representatives interactively expressed their main approaches and problems, which have brought indicators to a minimalist level of work in the Fiscal Cadastre Information System as well as other aspects related to property tax.</p>	
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	Reduce regulatory burden to businesses	Stage of reform implementation (1-5)
Activities planned for 2019		
Description of implementation and explanation if partial or no implementation	Non-inclusion of this reform comes as the main goal of these reform has been achieved - Reduction of bureaucracies, reduction of administrative burden and transition to 100% online services. From January 1, 2020, 472 services will be available online. The second block of services will be available online in June and by the end of 2020 all services will be available. These reforms have matured and become functional tasks.	

	Improve institutional capacity of the research and innovation system	Stage of reform implementation (1-5)
Activities planned for 2019	Strengthening the capacities of the National Agency for Scientific Research and Innovation	
	Strengthening the capacities of the National Agency for Funding in Higher Education	
Description of implementation and explanation if partial or no implementation	National Agency for Funding Higher Education Institution (NAFHE) is a key institution responsible for the distribution of public funds to public universities. The Decision of Prime Minister for establishing NAFHE is approved in 2017. Until its full operation, its competencies are currently fulfilled by the Ministry of Education, Sport, and Youth (MoESY)	

	Development of the broadband infrastructure for digital economy	Stage of reform implementation
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		(1-5)
Activities planned for 2019	Review of the National Broadband Policy Paper	3
	WB19-ALB-DII-01, Feasibility Study and CBA for the Development of Broadband Infrastructure in Albania	3
	Regional cooperation and EU integration process related with Broadband development;	3
Description of implementation and explanation if partial or no implementation	<p>Regarding the review of the National Broadband Policy Paper:</p> <ol style="list-style-type: none"> The thematic group for telecommunication and broadband was established on February 2019, by a specific order of Minister of Infrastructure and Energy. Three meetings of thematic group organized from April to September 2019; Kick Off of the Review of the National Broadband Policy Paper with the ITU expert held on 5th of July 2019; During a week the ITU expert who is assisting MIE in the drafting of the National Broadband Policy paper, held meetings with different stakeholders (AMA, AKEP, AKSHI, AKCESK, Albanian Post, different operators) to present the structure of the first draft of this document. Also, in a round table, all the aforementioned stakeholders discussed the objectives and activities to be included in the new document of the National Broadband Plan. A workshop to present the draft National Broadband Plan is planned in November 2019; <p>In addition, a Regional Forum for 5G ecosystem was organised in cooperation with ITU, on 27th of June 2019;</p> <p>The draft roadmap for 5G in Albania is prepared. Main expert findings were presented during the thematic group meeting in July 2019;</p> <p>Albania participated in the BCO EU network meetings during 2019.</p>	
	<p>Regarding to WB19-ALB-DII-01, Feasibility Study and CBA for the Development of Broadband Infrastructure in Albania:</p> <ul style="list-style-type: none"> - WBIF nominate COWI IPF8 for implementation of this project on June 2019; - Kick off meeting of IPF8 subproject WB19-ALB-DII-01, Feasibility Study for the Development of Broadband Infrastructure in Albania was held on 25th of July 2019; - During the meeting was presented the team of experts of Infrastructure Project Facility 8 (IPF8) that will work on the project WB19-ALB-DII-01 and was presented the methodology to be followed as well as the work plan in accordance with the ToRs approved in advance. - During September 2019, IPF8 team organized a number of meetings with different stakeholders such as market players, institutions and MIE. <p>The workshop for presentation of the inception report will take place on 9th of October 2019</p>	
	<p>Regarding the Regional cooperation and EU integration process:</p> <ol style="list-style-type: none"> Based on EU Digital Agenda for Western Balkan, a TAIEX Multi-country Workshop on EU-Western Balkan ICT Dialogue was held on 9th of July 2019; The purpose of this meeting, which brought together representatives of the 6 Western Balkan countries, was to encourage further development of dialogue between countries, with a focus on ICT. The emphasis during this meeting was on the achievements of each country in this field, 	

	<p>by presenting a general framework of the current situation and achievements in the regional and national level in the field of digital agenda.</p> <p>c. Regional Roaming Agreement in Western Balkan was signed on 4th of April 2019;</p> <p>d. Regional radio communication seminar organised with RCC in June 2019;</p> <p>e. RCC seminar on Digital Integration Pillar of MAP-REA etc.</p>	
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	Facilitating cross border movement of goods	Stage of reform implementation (1-5)
Activities planned for 2019	1. Effective implementation of the implementing provisions of the Customs Code, including the implementation of the AEO programme.	5
	2. Promote AEO concept and mutual recognition of AEO programs under AP5 with private sector.	4
Description of implementation and explanation if partial or no implementation	1. Law number 102/2014 of 31.07.2014 "The Customs Code of the Republic of Albania" became fully applicable on 1 June 2017. Articles 40 and 41 of the Customs Code regulate the status of the Authorised Economic Operators. For the implementation of the Customs Code, a decision of the Council of Ministers (DCM No. 651 of 10.11.2017 "On the implementing measures of the Law no. 102/2014 "The Customs Code of the Republic of Albania"" was approved. Under section 3, Articles 42 until 60 regulate the status of AEOs. Customs provisions related to AEO are aligned with the respective EU provisions. Moreover, in the regional level, by the Joint Ministerial Meeting, on 18 th of December under the Albanian Chairmanship, in CEFTA was approved the Decision on the mutual recognition of the AEO status.	5
	2. The General Directorate of Customs organised several meetings with Albanian exporters aiming to inform them on the facilities and benefits provided by the AEO status. 7 companies have applied up to now to obtain the AEO status.	

	Drafting and implementation of a competence-based curriculum and training of teachers	Stage of reform implementation (1-5)
Activities planned for 2019	Drafting the new curricula in pre-university education for high school level and for the remaining of a 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 the pre-university education system.	
	Teachers' training on the new curricula	
Description of implementation and explanation if partial or no implementation	In pre-university education, Albania has adopted a new 'competence-based' curriculum – and developed a set of textbooks to match the new content and methodology - which has been implemented gradually from the year 2014. Science and Mathematics textbooks have been adapted from prestigious publishers like Cambridge, Oxford, and Pearson, which markedly improved the tools that students and teachers use in classrooms. In 2018, the last part of the curricula, namely grade 5 is implemented in scholar year 2019/2020. This also mark the end of the curricular reform and allow MESY to shift its focus toward assessment and	5

	further improvement of the curricula.	
	Improve the quality and coverage of VET while ensuring linkages with the labour market	Stage of reform implementation (1-5)
Activities planned for 2019	Roll out the VET offer optimization plan in line with regional skills development needs and the process of re-organization of VET providers	3
	Continue the roll out of the quality concept both at the system level and at the level of providers. Finalize the national VET provider optimization plan in line with regional skills development needs; preparing plans, developing capacities and legalizing the setting up of Multifunctional VET centres in the country (MoFE and NAVETQ, VET providers	
	Skills development for VET teachers and trainers (by drafting policies for recruitment, professional development, assessment of competences and training of VET teachers and trainers) (MoFE and NAVETQ.	5
	Carry out the self-assessment of all VET providers.	5
Description of implementation and explanation if partial or no implementation	Roll out the VET offer optimization plan in line with regional skills development needs and the process of re-organization of VET providers	
	DCM no. 426, dated 26.06.2019 "On the manner of organization, functioning, and criteria for the selection of members of the sectorial committees and the manner of their remuneration". DCM no. 427, dated 26.06.2019 "On the approval of the criteria and procedures for the inclusion of lifelong learning qualifications, according to the levels of the Albanian Qualifications Framework, for vocational education and training". DCM no. 428, dated 26.06.2019 "On the approval of the table of detailed descriptors for each level of the Albanian Qualifications Framework".	
	NAVETQ, with the support of donors, prepared the 24-day training on "Fundamentals of didactics on VET" in 2016. During 2016 until 2018, with support of donors, the 24-day training on "Fundamentals of didactics on VET" was delivered for 491 VET teachers and instructors and 120 are in process of training for 2019. This training will be an obligatory pre-service training for all VET teachers and instructors. Teachers, with support of ETF have set up professional networks based on on-line platform for exchange of teaching and preparation materials. Three professional exchange networks have been set up during 2019, the professional network of economics teachers	
	Carry out the self-assessment of all VET providers During 2019, there were reconstructed, and are in the process of reconciliation 9 VET schools, they were also equipped with latest technology machinery and equipment. From IPA 2013, 9 schools and 4 VT Centers, During 2018, 10 vocational qualification descriptions / standards have been developed and 6 frame curricula, all accessible online. Currently, NAVETQ is in the process to develop three brand new qualifications relating to Agro tourism, Travel and Tourism Services and Hotel and Restaurant Services. In addition, NAVETQ provides different guidelines for VET teachers and providers, including assessment methods and tools (such as tests, projects, control checklist, etc.) Both Instructions of the minister "On the development of self-	

	<p>evaluation in the providers of vocational education and training", are adopted.</p> <p>12 multipliers have been trained to further train VET providers' representatives to implement self-evaluation process.</p> <p>More than 90 VET provider directors and teachers/instructors are further trained to implement self-evaluation process.</p> <p>The expected reports self-evaluation, are to be finalized and publish in May 2019.</p>	
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	Modernise public employment services, increase employment of women, youth and vulnerable people	Stage of reform implementation (1-5)
Activities planned for 2019	Investment for reconstruction and reorganization of employment offices, regional and local	5
	Mediations carried out by Employment Offices	5
	Implementation of employment promotion programs	5
	Training in VTC	5
	Benefits from unemployment	5
Description of implementation and explanation if partial or no implementation	<p>38 offices / branches have been restructured and organized since the beginning of the reform (2014), offering the model with three level of employment services.</p> <p>2019 has marked significant improvement in employment and skills development policies, as well as the legal and institutional framework governing the sector. Following the Midterm Review of the National Employment and Skills Strategy 2014-2020, the strategy and its related action plan have been revised and extended until 2022 (as approved by a Decision of the Council of Ministers in October 2019). Each measure will be implemented by the support provided for in the MTBP, as well as the donor projects.</p> <p>The adoption of law No.15 / 2019 "On Employment Promotion" in March 2019, completed the legal framework related to employment policies / programmes and skills development (bylaws being drafted). More importantly, it has created ample space for the diversification of EPPs and employment services, placed the providers of employment and vocational education and training under the management of the National Agency on Employment and Skills (NAES), and the establishment of a Social Employment Fund (for the employment and up skilling of people with disabilities). The Council of Ministers approved the establishment of NAES in July 2019 (DCM 554/2019), and the proposed structure of the new Agency envisages a significant increase in human resources at the central level. Nonetheless, the challenge of expanding services to uncovered areas remains.</p>	
	<p>2.Mediations carried out by Employment Offices</p> <p>There are employed 32,846 unemployed jobseekers, 46% of them are women. This result was achieved through the implementation of a new model of employment services at employment offices.</p>	
	<p>3.Implementation of employment promotion programs</p> <p>From implementation of the programs for 2018 are included 4808 unemployed job seekers. For 2019 have begun to be implemented the programs.</p>	
	<p>4. During this period January-August 2019, 16738 people continue to be trained in various vocational training courses in public training centres, of which 43% are women. Unemployed jobseekers, who attend these courses free of charge, are 12,695.</p>	

	Persons who have completed and have been certified in courses are 11335 persons. To support the transition to the labour market of the unemployed, particularly youth, beneficiaries of social assistance and long term unemployed a soft skills training course was developed and piloted in 2018. The course aims to help unemployed jobseeker profiles in terms of basic employability skills and as a career orientation tool and a more accessible approach good at future job profiles. The Start Smart course was rolled out nationwide during 2019. For this period have participated in this course 7,157 unemployed jobseeker.	
	5. Benefits from unemployment The DCM No. 161, dated 21 March 2018 "On the payment of unemployment benefits", which continues to apply, actually, with the increase of the minimum wage scale nationwide, this payment is 13,000 ALL or 107 Euro. During January-August 2019 are 2,583 persons in the system of unemployment benefits.	

	Strengthening social protection, and social inclusion measures	Stage of reform implementation (1-5)
Activities planned for 2019	Draft Legal framework on Social Support Legal framework has been completed with sub-legal acts. 7 normative acts, 6 Government Council Decision and 3 Minister Guidelines have been adopted to adjust to the needs of the social care services system. The main and most important sublegal act, based on social care services law is the DCM 518/2018 "On the criteria and procedures for admission with the residential centres and use of services in the community", which entered in force in March 2019. The DCM defines "the basket" of social services and the object and the subject of all social care services in order to enforce their mandatory and uniformity throughout the territory of the Republic of Albania, in order that the geographical distribution of these services shall be sufficiently wide.	5
	Continue Screening for Eligible Economic Aid beneficiaries through MIS. Economic Assistance Scheme has provided accurate criteria and ensured and better new scheme. From the application of the new economic aid scheme, 10758 households benefitted for the first time.	5
	Assess disability in line with the social model as a precondition for social integration. Assess disability in line with the social model as precondition for social reintegration. From the starting of the disability assessment scheme, there were 950 people with disabilities turned out to be beneficiaries of disability payments through a process of evaluation according to the bio-psycho-social model.	5
	Improve 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. In the monitoring of the situation for Social Inclusion, the IPMG sub-thematic on social inclusion and protection group has been established has approved the extension of the deadline of the National Strategy for Social protection. Monitoring report for Gender Equality, 2018, Report for Roma and	5

	Egyptians 2018 and Mid-term Review for Disability action Plan have been completed.	
	Draft legal framework on social service support. Continue screening for eligible Economic Aid beneficiaries through automated MIS.	5
Description of implementation and explanation if partial or no implementation		

ANNEX II

EXTERNAL CONTRIBUTIONS TO THE ERP 2020-2022

The Economic Reform Programme for the medium-term period 2020-2022 was shared for consultation to the partners for development and integration, Civil Society, business organisations, NGOs, chambers of commerce and industry, academia, etc. The process of collecting, consolidating, and reflecting of the feedback received as part of the public consultation involved both the ERP national coordinator office, and the public institutions has been extended in time throughout the ERP drafting and preparation process.

This annex serves to showcase the consolidated feedback that was sent as part of the public consultation process. To the extent possible and within the sole discretion of the responsible institutions, the final ERP document has been reviewed to include incoming contributions. Due to the revision of the content of the document throughout the consultation period, there will be some inconsistencies or references to outdated information, such as reform measure number, page numbers, etc. This is to be expected and is in line with the principle of leaving submitted contributions unmodified.

Albanian Association of Consulting Engineers (AACE)

We received with high interest your Invitation for *stakeholder consultation for the Economic Reform Programme (ERP) 2020 – 2022* prepared from the public institutions in Albania.

Interested especially on the scientific reforms in our Country we would like to express our opinion in this very important *Economic Reform Programme* (see attached). Our opinion as representative of the group of interest (in this case of engineers and Engineering industry in Albania) is not for the first time, but without getting a proper response up to now from the public sector. The problem is that this Programme, especially in terms of *Reform measure 12: Improve institutional capacity of the research and innovation system* is not realistic, is not in the interest of country economy development. As may you know, Albania with 0.1% of the public budget for the supporting science and scientific research is ranking the 193-d in the world for the contribution in science and scientific research (developed countries have 3-4%; see at your document attached with red colour). With such programs our Country never will be a proper developed one.

For your consociate, as association of Engineers (AACE) we have proposed early 2012 and 2015 to change this conduct for the interest of the country and our economy presented in this specific formulation “*Reform measure 12: Improve institutional capacity of the research and innovation system*”.

As per above opinions and arguments we have a good will to cooperate with you to do the best possible and first steps, even in this important Programme for a proper Reform in this regard, during this process of Stakeholder Consultation.

EBRD

- Reform measure 2 – you may want to make reference to the recently launched auction for the Karavasta solar power plant, supported by EBRD.
- Reform measure 3 – you may want to note that ERE has started the review of the transmission network code, which was prepared by Albgaz with EBRD support.
- Reform measure 4 – you may want to broaden this point to cover other important initiatives in the railways sector, including the connection of the Durres-TIA-Tirana line with Tirana City Station, the rehabilitation of the Vore – Hani i Hotit line, and the development of an asset management plan and track access charges methodology for Albanian Railways (all of which

EBRD is supporting). We note that no mention is made of projects / reforms in the road, air and ports sectors.

- Reform measure 7 – you may want to make reference to the EUR 40m 2017 IPA program for the competitiveness of the tourism sector in Albania which is being implemented by EBRD. ADF is the implementing partner on the Albanian side.
- Reform measure 10 – you may want to make reference to the access to finance program for the agribusiness sector that EBRD is implementing through the support of the Government of Albania under the National Guarantee Fund. This initiative could be extended to boost lending to the tourism sector as well.
- On reforms under chapter III pertaining to ‘Business Environment and reduction of informal economy’, we would suggest consulting with the Investment Council Secretariat and consider covering more prominently key issues of concern for the business community including property rights, measures to reduce corruption and informality, and increasing capacity in the public administration. We would also suggest providing details on the status of the new Unified Law on Investments.

Switzerland

- Switzerland in partnership with IFC has been supporting the Ministry of Infrastructure and Energy for the establishment of Albanian Power Exchange as part of *reform measure 1* for: *further liberation of energy market*. We look forward to seeing a fully functional and effective Albanian Power Exchange which will lead to decentralization of the energy power system. We suggest that Table 3: Results Indicators (page 8) should be completed with baseline and target figures.
- We are also in the design stage of a new project on energy efficiency, entitled: Smart Energy Municipalities Project (SEMP), which will start its implementation by the end of 2020. This new SEMP will contribute to realization of *reform measure 2* for: *promotion of renewable energy sources and energy efficiency improvements* at municipal level and increasing the capacity building of human resources and strengthening institutional building of National Agency for Energy Efficiency. We noted with pleasure that the MIE intends to equip the National Agency for Energy Efficiency with the full staff, establish Energy Efficiency Fund and update National Energy Efficiency Action Plan and National Action Plan for Renewable Energy Sources (as they expire in 2020) as well as complete the secondary legislation on energy performance of buildings. We suggest that the table of activities planned for 2020, 20221 and 2022 (on page 10) should be revised, since most of the envisaged activities are the same. We suggest that Table 3: Results Indicators (page 11) should be completed with baseline and target figures as well as to add a new result indicator on reduction of CO2 emissions.
- We commend the Government of Albania for taking actions to proceed with the preparation of the *Integrated Strategy of Energy and Climate* taking into account climate change adaptation.
- Switzerland has contributed to improvement of regulatory framework, increase skills and knowledge of human resources on gas sector, establishment and consolidation of Albgas institution as gas TSO/DSO and conduction of the Feasibility Study for the gas pipeline connection between TAP exit point in Seman and Vlora Thermal Power Plant (TPP) and its tendering. We suggest that Table 3: Results Indicators (page 14) should reflect the operationalization of Vlora TPP by 2022 in the framework of *reform measure 3* for *diversification of energy sources through the development of gas sector*.

- Switzerland in partnership with KfW and EU is contributing to Albania's achievement of Results Indicators of *reform measure 6* for: *Water and Waste Water Sector* through two interventions: *Municipal Infrastructure Programme III & IV*, targeting 7 municipalities, the new *Water Sector Performance and Infrastructure Programme*, targeting 8 municipalities, where focus will be placed on improvement of financial performance of utilities, enhancement of human resources capacity building, improvement of integrity measures, implementation of reform measures and improvement of water supply and waste water services. Switzerland in close cooperation with the MIE is preparing a new scoping initiative for supporting the improvement of low performing utilities and aggregation of services.
- Switzerland is contributing to development of tourism in Albania for enabling the employment of young people through two interventions entitled: *RisiAlbania-Youth Employment Project* and *Swiss Import Promotion Programme (SIPPO)*. In the framework of reform measure 7 for: *increasing services standards in tourism*, there is room for cooperation for supporting the Ministry of Tourism and Environment with Swiss expertise in the categorization of hotels and accommodation structures through *RisiAlbania* project. We suggest that this reform measure could also consider to put more accent on supporting sustainable tourism around the year, development of new tourism products and improvement of human resources capacities which are part of Tourism Sector Strategy.
- Switzerland is supporting the development of an entrepreneurship ecosystem in Albania through the initiative entitled. *Swiss Entrepreneurship Programme* for the last five years. In the framework of reform measure 9 for: *supporting development of innovative start-ups in Albania*, there is room for cooperation between the Ministry of Finance and Economy and *Swiss Entrepreneurship Programme* for supporting in preparation of the law and secondary legislation on start-ups as well as drafting the policy framework and supportive schemes with focus on innovative product or service.
- As mentioned above, *RisiAlbania* project focusing on youth employment is also contributing to the achievement of planned results indicators in employment and skills development of young people as part of reform measure 19 for: *improving the employability of the most vulnerable unemployed jobseekers through better targeted EPPs and employment services.*

UN Women Albania

- Economic policies impact women and men differently as they have different economic and social roles, as well as unequal access to and control over resources, because of socio- cultural, political and economic factors. Gender-based inequalities at all levels determine the differentiated impact of economic policies on women and men, girls and boys. At the same time, existing gender inequalities significantly impact on productivity, competitiveness, and growth, thereby strongly influencing policy and reform outcomes.
- The Economic Reform Program provides an opportunity to maximise benefits and prevent adverse effects of economic reform in two main directions: 1) to promote gender equality as a precondition for unlocking economic potential and enhancing productivity, competitiveness, and growth; and 2) to ensure that economic reform measures benefit Albania's female and male population in an equitable manner. Economic Reform interventions are hardly gender neutral. In every reform measure of the ERP there is an opportunity to address concrete gender-responsive objectives and outcomes, while defining explicit gender-responsive action(s), with the aim to achieve the two key objectives described above.

- The inclusion in the structure of the ERP of a specific section to highlight 'Expected impact on social outcomes, such as employment, poverty reduction, equality and gender' is very helpful. However, in many instances where specific reference to impact on gender equality is made, this is generally not supported by relevant articulation in the analysis nor by an elaboration of how the planned actions/results would specifically benefit women vs men (see for example measure 02, 07, 09, 18). In some cases, a generic reference to the fact that "Gender equality will be respected throughout the implementation of the measure' is included (see for example n. 15 and 16), which may require further clarification.
- The draft ERP often makes reference to the fact that the adoption of legislative and or policy changes will per se lead to the expected results, while this assumption may not necessarily hold true. A case in point is reform measure 05 where, despite recent important improvements at the legislative level, Albanian women continue to face several barriers to the enjoyment of their property rights which are not specifically addressed, such as for example challenges in implementation of the legal framework at central and local levels, as well as persisting discriminatory cultural and social attitudes/practices at the institutional and community level, and the persisting lack of women's knowledge of their rights.
- Data is provided as aggregates in several parts of the draft ERP. Yet, systematic sex-disaggregated statistics and gender data are key for identifying, analysing, understanding, and monitoring gender inequalities among the female and male population that impact on economic development across the different measures of the ERP. It is recommended to use sex-disaggregated statistical data systematically wherever individuals are concerned by the measure. This is consistent with Albanian Gender Equality legislation as well commitments deriving from the SDGs (and related indicators), the ECOSOC Statistical Commission, and the UN Beijing Platform for Action.

ANNEX III

Additional support information to the ERP Chapter 5 on Structural Reforms

I Energy and transport market reforms

Analysis of main obstacles

According to ERE's report of 2018, the installed capacity (licensed) in our country is 2.204 MW, of which 1.448 MW is the installed capacity of hydropower plants (HPPs) in Drini river cascade of KESH sh.a, 756 MW the total installed capacity of private producers/concessionaires of electricity and 98 MW the installed capacity of Vlora TPP. Electricity net production from HPPs in the country was 8,552,152 MWh. Public net production of electricity was realized 100% from HPPs, of which 5,850,932 MWh was produced by KESH (public production, which is 68.4% of total production) and 2,701,220 MWh from other HPPs (31.6% of total production). Production from HPPs in Drini river cascade has the main share domestic production.

Work continues in order to increase production capacity in hydro through the construction of HPPs given earlier in concessions agreements or small HPPs under 2 MW and measures to utilise the significant potential of the country's renewable energy capacity and resources, like wind and solar. In this context, Albania is also already exploring possible new investments in wind and solar power plants. Moreover, reducing the level of technical and non-technical losses in the distribution networks and investing in the distribution grid remains another priority for the sector.

The amendments introduced by Law No 7/2018 of 15.02.2018 remove the legal obstacles for the establishment of the Albanian Power Exchange. The set-up of the Albanian Power Exchange aims to fulfil the obligations of the Republic of Albania as a member of the Energy Community and to implement the Government's policies for the liberalisation of electricity market and the creation of an electricity trading market.

According to the country's Energy Balance (referred to 2016), in the supply of energy products electricity is 28.8%, while 59.5% consists of fuel products, mainly oil and its by-products, which is considered a strategic necessity for diversifying the supply of energy sources, through Albania's connection to regional gas networks and the country's gasification. Energy sector reform is in rapid progress including liberalization of energy trade in line with the requirements and objectives of the EU Third Energy Package.

Taking into account the obligation to apply Regulation (EU) no. 347/2013 of the European Parliament and of the Council of 17 April 2013 on guidelines for trans-European energy infrastructure and repealing Decision Nr. 1364/2006 / EC and amending Regulations (EC) No 713/2009, (EC) No 714/2009 and (EC) No 715/2009, concerning the interconnection of Albanian energy infrastructure with regional and European ones, is approved the Decision of the Council of Ministers no. 685, dated 14.11.2018, "On the adoption of practices for the promotion of regional joint investments in energy sector infrastructure".

The company "Albgaz sha" has taken the certification from the Energy Regulatory Authority (ERE) to operate as a Gas Transmission Operator; moreover, the ERE has approved the provisional tariffs to be applied by "Albgaz sha" for the transmission of gas (Decision No. 179, dated 08.11.2017, of the ERE Board, "On the Certification of the Company") In the meantime, the ERE has approved the Decision No. 187, dated 10.11.2017 of the ERE Board "On the licensing of the company ALBGAZ Sh.a in the activity of distribution of natural gas" and the decision No. 188, dated 10.11.2017, of the ERE Board "On the licensing of ALBGAZ S.A in the natural gas transmission activity".

With the approval of DCM no. 590, dated 09.10.2018, "On the approval of the natural gas market model", currently the ERE is finalizing the adoption of the Trans Adriatic Pipeline AG (TAP AG) Transmission Code. Meanwhile, ERE is also concluding the process of preparing the Transmission and Distribution Code for the ALBGAZ S.A.

The lack of transport infrastructure combined with improper maintenance leads to a very high number of road traffic accidents. The number of vehicles in Albania has increased dramatically within the last ten years, and the overall number of fatal traffic accidents, following a slight decrease in the past, has stagnated in the last 2-3 years. The estimated rate of fatality in Albania is 136 deaths per million inhabitants, which is almost three times the EU average of 49 deaths per million (WHO Global Status Report 2018). Almost 40% of all persons killed on the roads are pedestrians, compared to about 21% in the EU. There is no data on the cost of accidents, but they are likely to have a significant impact on the economy, due to their frequency.

Reform measure 01: Further liberalisation of the energy market

In line with the measures introduced in previous ERPs, and with a view to the already achieved milestones, for the ERP 2020-2022 reporting period the focus will be on:

By increasing competition between energy suppliers, through legal and regulatory initiatives and increasing the security of supply, efficiency and productivity gains will lead to lower production costs and electricity prices.

➤ **Liberalisation of the electricity market (consumers in the free market).**

As legally provided *“the final consumers supplied with electricity by the supplier of last resort and who enters for the first time in the liberalised market, is obliged to sign a supply contract with a new supplier within two years from the start of the supply contract from the supplier of last resort. At the end of this period, the system operator interrupts the power supply to this consumer. Starting from 1 January 2018, all the consumers connected to 35 kV should be supplied in the unregulated market”*. Currently, 98 customers are connected in the 35 kV grid, but until now around 1/3 of customers (28 customers) connected to the 35 kV grid, have chosen to be supplied in the unregulated market.

➤ **The unbundling of the distribution activity from the supply.**

As previously reported, the legal and functional unbundling of Distribution System Operator (OSHEE S.A.), aims at the unbundling of distribution from the supply activity. The unbundling model was approved by the Supervisory Council of OSHEE S.A. and also by the Minister of Energy and Industry as the General Assembly of the Company. The set up of three daughter companies is completed. These companies are:

- Universal Service Supplier S.A. (FSHU) for the electricity supply of End-customers operating in the regulated market,
- Free Market Supplier S.A. (FTL) with the purpose of purchase and management of electricity and operation in the **free market** and
- Distribution System Operator S.A. (OSSH) with the objectives of distribution of electricity, construction, operation and maintenance of the **electricity distribution network** for the supply of electricity to customers, connection of customers and users of the network electricity distribution, installation and electricity metering services.

ERE has granted licenses to those three new companies with its decisions No. 198 and 199 dating from 3rd of September 2018, No. 215 dating from 11th of October 2018 and No. 216 dating from 11th of October 2018.

By decision No. 264, dating from 20th of December 2018, ERE agreed to set a transitory period of 12 months for the license transfer. Until the end of the transitory period (12 months), the operation activities in the electricity distribution system, power supply and the obligation of universal service of the power supply, will continue to be carried out by OSHEE S.A.

Currently, the company Deloitte is carrying out the valuation of the assets of OSHEE S.A.

➤ **Establishment of Albanian Power Exchange**

In accordance with the provisions of the amendments made to the law on power sector, the Albanian Council of Minister:

- With decision no. 322, dated 15.5.2019, has decided on *“The establishment and the legal form and the capital structure of the ownership of the Market Operator”*;

- With decision no. 609, dated 11.9.2019, has decided on “*Determining the criteria and procedures for the selection of participants in the market operator's capital*”.

These two DCM's has completed the necessary legal background for the setting up of the Market Operator in Albania.

- **Security of supply**

- Investments in the distribution/ transmission grid and generating system (Completion of the project in the transmission system. Construction of the 400 kV Interconnection line (Albania) - (NRM) Activities planned 2019 - 2021 - Implementation of the project Elbasan (Albania) - Bitola (NRM) 400 kV interconnection line: Lot 1 & Lot 2)

- Further reduction of distribution losses - Level of electricity losses in distribution grid
 - Year 2018 – 23.96%
 - Year 2019 (January – July) – 23.10%

- Further increment of bill collection rates - Bill Collection Rate

Year 2018 – 101.9%
Year 2019 (January – July) – 96.56%

Reform Measure 02: Diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements

The measure is in line with Energy Policy of Albania, National Strategy for Development and Integration (2015-2020), National Energy Strategy (2018-2030), Internationally Agreements (Paris Agreement, UNFCCC etc.), the current National Action Plan for Renewable Energy Sources (2019-2020), and the National Energy Efficiency Action Plan of Albania (2017 – 2020).

Energy Policy of Albania include the promotion of use of renewable energy sources beyond hydropower due to the significant potential the country presents for photovoltaic and wind energy production, based on its favourable geographical position, climate conditions and high intensity of the solar radiation. The objective of National Energy Strategy is to increase RES capacities to 42% and to reduce greenhouse gas emissions to 11.5% of total emissions for the period 2020 – 2030.

According to the RES Action Plan that sets out the roadmap for achieving the national target of RES consumption (38%) in 2020 it was revised to achieve the national target the NREAP (DCM 580, date 28.08.2019) with new objectives that foresees the expansion of installed PV capacities from 120 MW to 490 MW and the decrease of Hydropower capacities installed from 600 MW to 57 MW. Secondary legislation is not fully completed.

Within this reform, further efforts has been taken to introduce new incentive schemes of financial support for RES as provided by Law 7/2017: “Feed-in-Tariff” for the purchase price of electricity produced from renewable sources up to 2MW and “Feed in Premium” for the purchase price of electricity generated from renewable sources with generation capacity over 2MW (Auctions procedure through Contracts for difference), for 15 years, according to the Law 7/2017. Financial support is provided only to reach 38% by 2020 as a direct commitment to subsidize clean energy versus imports. Currently, some private investments are on place.

According to the 2nd and 3rd National Energy Efficiency Action Plan of Albania, 2017 – 2020” which set out a holistic overview of the implementation status and future plans for energy efficiency policy in Albania and its compliance with Albania’s obligations under the Energy Community, the cumulative final energy savings target up to 2020 is of 123.7 ktoe (or 6.8%); Government is working on creating a complete legal and institutional framework for the sector.

Creating a complete legal and institutional framework in accordance with Law No. 124/2015 “On Energy Efficiency” and Law No. 116/2016 on “Energy performance of Buildings”, it is necessary to create favourable conditions (economic, technical and legal) to be able to guarantee the achieved savings by applying energy efficiency measures.

Through this measure we aim implementation of EE improvements in public and private buildings, households, industry, transport etc. Building sector is expected to contribute largely to national energy savings increase, with 30 % reduction in the final energy consumption planned to be achieved within

2020. Few investments are ongoing, mostly IPPA projects and donors. State budget has a very modest contribute on this field.

Reform measure 03 Rehabilitation and construction of the railway segment Durrës-TIA-Tirana

Expected impact on competitiveness (...continued from pg 85)

There plans to build another railway line connecting Durres with the rest of central Europe. However, the challenge is to be competitive with private cars, to set up tolling at highway Durres-Tirana- Durres for buses and taxis.

There are current DD plans to build another railway line connecting Durres with the rest of central Europe CEFTA via TEN-T OEM in Belgrade reaching the Podgorica to Durres/Tirana in the priority project from Albania to Montenegro as part of interconnectivity in the TEN-T MED Mediterranean Corridor through Montenegro – Albania- Greece. Key obstacles and bottlenecks, inter alia, include:

- a. Identification of obstacles to growth has social impacts to competitiveness and inclusive growth.
- b. For freight, the existing average unit charges i.e. indicator per ton-km, are taken unchanged on its both rehabilitated and non-rehabilitated sections.
- c. This considered measure that will enhance the competitiveness of the railroad, is achieving the maximum possible diversion of transport of freight from the road to the train.
- d. Also taking into account the fact that it does impedes before accounting for transfer payments to the other HSH units.
- e. Lack of majority to weighting devices for ton/axle for lorries and truck, relies especially for the dangerous goods.
- f. Increase the police inspections and road safety bodes to remove the tank tracks of dangerous goods from the Tirana Durres highway, which should remain mainly to the family cars and tourists.
- g. Obstacle to shifts for tones/HGV Train load to tones/train after calculations assessment for freight trains the average loaded consignment on the train of goods is up to 600 ton per train –commodities.
- h. Prime insurance for passenger ticket as in public service contract of RU with Passenger approved.
- i. The unit cost of railroad accidents in Albania is estimated equal to 0.0099 Euros per train-km.
- j. AARC = average (compound) annual rate of change of unit VOT 2.25% on yearly basis
- k. MCA on Unit operating cost Cost/passenger train hour for cost/F trains EUR/train-hour.

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II - Agriculture, Industry and Services

Analysis of main obstacles

As many agricultural families by the end of 2018 had not applied to the municipalities in accordance with the legislation to comply with the Land Acquisition Acts, despite the awareness campaign conducted by the Albanian Government, the adoption of legal acts such as:

- *Law 9/2019 "On some additions and amendments to Law no. 171/2014 "On Completion of the Process of Transfer of Agricultural Land to Former Beneficiary Owned Agricultural Enterprises", as amended.*
- *Law No. 10/2019 "On some amendments and additions to Law no. 17/1 of Law no. 9948, dated 07.07.2008, "On the examination of the legal validity of the creation of title on agricultural land", as amended and its implementing acts.*

Adopted, Decision of the Council of Ministers (DCM) No. 299, dated 10.5.2019 "On some additions and amendments to the DCM no. 994/2015, as amended", this decision simplifies the procedure for registering the Land Ownership Acts (AMTP) and increasing applications in the State Cadastre Agency (ASHK).

Adoption of the legal framework seeks to resolve many property rights issues. The new Law on Cadastre will provide a regulated and harmonized system of real estate registration. A clear and reliable system of land ownership information provides conditions for land consolidation and

develops a dynamic market of land through the establishment of a system with clear rights security and an integrated framework on the land ownership rights in Albania.

Legal changes in recent years have also affected women's property rights over agricultural land, mainly in rural areas, because women have been treated as members of the farming family more equal to their husbands. In the meantime, the Albanian Government has significantly increased its budgetary support for the agricultural sector, with the introduction of a National Support (subsidies) Scheme implemented by the Agricultural and Rural Development Agency (ARDA), as well as the IPARD II Program. In the process of applying and implementing the National Support Scheme, it is envisaged that women will be more favoured than men in the application process and in the financial amount of support (subsidies).

By the end of 2019, it is anticipated that the completion of the Land Ownership Acts (AMTP) for 20,000 farmer families will continue with the registration phase in the State Cadastre Agency. The new Law on Cadastre provides a regulated and harmonized system of real estate registration, which offers titles of ownership on agricultural land, through reforming the institutional environment, improving the legal framework and enhancing the accuracy of property records, in accordance with European Union standards and best practices in the field. A higher level of security of property rights and integrated land management rights are expected to have a positive impact on boosting Albanian and foreign investment, thus benefiting Albania's economic development.

In this regard, a draft Law “On the Completion of the Transition Process for Ownership in the Republic of Albania” is also in the process, where ownership titles on agricultural land are also part of it and will solve the ownership problems in Albania.

Finalizing the transfer of ownership of agricultural land and registering ownership titles with the State Cadastre Agencies, ensures the achievement of the main objective of the Agricultural Land Consolidation Strategy according to the concrete measures set out in the National Land Consolidation Strategy adopted by DCM no. 700/2016.

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III - Research, development and innovation and the digital economy

Analysis of main obstacles

The main legal framework for telecommunication and broadband is law no 9918 dated 19.5.2008 for electronic communications in Republic of Albania as amended. This law is based on EU electronic communication package of 2002 as amended by directives of 2009. Albania has approved also the Law no. 120, dated 24.11.2016⁹⁶ for broadband development. This law aims to increase investment, improve broadband penetration, increase efficiency of the existing infrastructure through infrastructure sharing, as well as will increase competition. In addition, there are some social and environmental benefits. The implementation of the law is in the early phases. The work for sharing infrastructure between energy sector and telecom is ongoing.

In December 2018, the European Union has approved a new electronic communications code by Directive 2018/1972/EU. The new electronic communications code repealed the EU regulatory package for electronic communications 2002/19/EC, 2002/20/EC, 2002/22/EC, and 2002/21/EC, as amended. The code's provisions include measures to stimulate investment in and take-up of very high capacity networks in the European Union, new spectrum rules for mobile connectivity and 5G, as well as changes to governance, the universal service regime, end-user protection rules, and numbering and emergency communication rules.

Based on Prime Minister's Order no. 157 dated 22.10.2018, “On measures for the implementation of a broad sectorial / cross-sectorial approach, as well as the establishment and functioning of the sectorial / cross-sectorial integrated mechanism” the IPMG-s (Integrated Programme Management Groups) and Sectorial Lead Committees were established. The “Connectivity” Sectorial Lead

⁹⁶ Law “On the development of high-speed electronic communication networks and the provision of the right-of-way” fully approximates Directive no. 2014/61/EU

Committee is led by the Ministry of Infrastructure and Energy. The telecommunication and broadband is a specific thematic group part of the Connectivity Committee.

The thematic group for telecommunication and broadband was established on February 2019, by a specific order of Minister of Infrastructure and Energy. The telecommunication and broadband thematic group, as part of “Connectivity” Sectorial Lead Committee aims to ensure cooperation and joint decision-making at the highest political and managerial level for planning, coordinating and monitoring of cross-sectorial and national programs in priority areas, providing guidance on the follow-up of the coordinated implementation of priority policies and reforms through reporting and monitoring of measures related to priority goals and objectives in priority areas, reforms and sectors of particular relevance etc.

A fully-fledged Feasibility Study on broadband development is under preparation with the support of WBIF. This study will support the preparation of a National Framework Program for the Development of Broadband Infrastructure in Areas Lacking from the Sufficient Commercial Interest for Investment as well as to achieve the objectives for broadband connectivity with at least 30 Mbit/s and more based on EU gigabit society strategy. In addition a 5G roadmap for Albania is drafted. The work to revise the National Broadband Plan started during July 2019. Broadband development is in line with EU Digital Agenda, and one of WB6 priorities of the Multiannual Action Plan for Regional Economic Area (MAP-REA) endorsed during the Trieste Summit held on 12th of July 2017.

The Government of Albania has identified digital connectivity and broadband infrastructure as a key priority in the strategic documents such as National Strategy for Development and Integration.

Digital Agenda Strategy, Economic Reform Program (ERP) 2019-2021; The National Broadband Plan; The second 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.

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IV - Social inclusion, poverty reduction and equal opportunities

Analysis of main obstacles

Albania has made significant steps to improve the situation of social protection and inclusion and human rights related indicators. Growth of employment indicators has been accompanied with an impact on poverty. However, social protection support and cash payments remain important for living standards of people in need.

An important development is the publication by INSTAT for the first time the results of Survey on Income and Living Conditions (SILC)⁹⁷ which measures living standards, relative poverty and material deprivation in Albanian households.⁹⁸ The risk of poverty indicator was 23.4% for year 2018. In 2017, this indicator was 23.7%, declining by 0.3 percentage points. Compared to other EU countries regarding at-risk-of poverty rate is 23.4% for 2018. Relative poverty (percentage of individuals with incomes below 60% of the median of equivalent incomes) indicating risk limit for being poor per person in 2018 was estimated at 1,317.01 Euro⁹⁹ compared to 1,388.17 Euro in 2017. In 2018, approximately 671,000 individuals lived below the risk of poverty compared to 681,000 individuals were estimated in 2017 indicating that disposable household income has increased and the proportion of individuals at risk of poverty has decreased by about 1.5%.¹⁰⁰ GINI coefficient is 35.4 in 2018 (less than 36, 8 in 2017,) as indicated from SILC.

⁹⁷ UNDP with INSTAT are conducting a Mini Income and Living Conditions Survey (SILC) to assess people's living conditions in earthquake affected areas through innovative data collection methodologies to identify needs for affairs.

⁹⁸ This survey is fully in line with the Eurostat methodology and the methodology used by all other EU member states. The survey is a key source of comparable statistics on income distribution and social exclusion at European level. The SILC survey is conducted annually across all EU Member States as well as those aspiring to EU membership

⁹⁹ BoA Exchange Rate 122.05 EUR /ALL

¹⁰⁰ SILC

The social care services reform, based on the Law on Social Services, firstly developed social care services integrated as a minimum basket of social services provided in the community, social care centres and domestic assistance for all identified categories of beneficiaries. Community-based approaches have been introduced and have brought diversification of service provision, encompassing areas such as psychological support, awareness raising and advocacy. In the context of the Law 121/2016 on Social Services, fiscal and administrative decentralization in Albania, essential public services are being delegated to local governments and require new funding and effective management mechanisms to deliver coordinated services across different levels of government.

The number of regions covered by social care services has also increased. Community-based services are operated by NGOs, which are financed by foreign donors offering a range of assistance to a diverse client base including children, children without parental care and those with social problems, people with disabilities and elderly persons, trafficked persons, and counselling for women and girls. Challenge remains the lack of services in 27 out of 61 municipalities, which do not provide any social care services, while others face challenges with regard to service outreach, human and financial resources allocation, quality and sustainability.

Taking into consideration that the local governments have the responsibility for drafting social care plans to guide the provision of social services, there is a need for capacity building at the local level. Social Fund is expected to improve financing of social care services but will need to be based on a transparent equal funding mechanism in order to ensure public confidence in the way funds are distributed to municipalities. At present, 24 municipalities have produced local social plans approved and budgeted, 14 of them has already benefited from Social Fund, in the frame of the First Call launched by MHSP.