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Albania and the IMF

Press Release:
IMF Executive Board Approves US$24.7 Million under the PRGF and EFF for Albania
January 27, 2006

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

January 11, 2006

The following item is a Letter of Intent of the government of Albania, which describes the policies that Albania intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Albania, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Tirana, January 11, 2006

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. de Rato:

Since 1993, the International Monetary Fund has supported our efforts to achieve and maintain macroeconomic stability and to develop and restructure our economy. Our progress has been solid, but a considerable reform agenda lies ahead of us, and we continue to see significant benefit in further program-based engagement with the Fund.

The successful completion of the third PRGF-supported program in November 2005 provides us with a firm foundation for new arrangements. Trend growth is strong, inflation is in the 2-4 percent range, and confidence in the currency and the banking system is on the rise. Moreover, with significant structural adjustment carried out over the last three years, we are well placed to fully implement the ambitious reform agenda described in the attached Memorandum of Economic and Financial Policies (MEFP). These policies are consistent with our November 2001 National Strategy for Socio-Economic Development (NSSED) and the Annual Progress Reports of May 2003, May 2004, and July 2005.

We therefore request a new three-year Poverty Reduction and Growth Facility arrangement in an amount equivalent to SDR 8.5225 million (17.5 percent of quota) together with a concurrent three-year Extended Fund Facility arrangement in the same amount. Our request for a blend of these two facilities reflect Albania's rapid income growth over the last decade. We have already completed the prior actions agreed with Fund staff, including passage of a 2006 budget consistent with the negotiated program.

We believe that the policies set forth in the attached MEFP are adequate to achieve the objectives of the program, but will take any further measures that may become appropriate for this purpose. Albania will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

Following this arrangement, and as long as Albania has outstanding financial obligations to the IMF arising from loan disbursements under the present arrangement, Albania will consult with the IMF from time to time on economic and financial policies, at the initiative of the government or the Bank of Albania, or if the Managing Director of the IMF requests such consultation. These consultations may include correspondence and visits of officials of the IMF to Albania or of representatives of Albania to the IMF. In continuing with our policy of transparency, we consent to the publication of this letter, the attached MEFP, and the accompanying Executive Board documents on the IMF's website.

Sincerely yours,

/s/	/s/	/s/
Sali Berisha	Ridvan Bode	Ardian Fullani
Prime Minister	Minister of Finance	Governor, Bank of Albania

Memorandum on Economic and Financial Policies (MEFP) for Albania

I. BACKGROUND

1. This memorandum lays out the broad thrust of our policies over the proposed 2006-2009 program period, and provides a detailed description of our policy intentions for 2006. It is consistent with the November 2001 National Strategy for Socio-Economic Development (NSSED) and the May 2003, May 2004, and July 2005 NSSED Progress Reports. We have started preparing an updated NSSED for 2007-09, to be completed by end-2006, which will be formulated within the comprehensive Integrated Planning System introduced in 2005.

2. **Albania's macroeconomic performance has been solid since 1998.** With the exception of the supply-induced disruptions of 2002, we have enjoyed a prolonged period of rapid, non-inflationary growth. Over the last three years in particular, confidence in the monetary framework has been enhanced and inflation expectations anchored to the 2-4 percent target range of the Bank of Albania (BoA). This has strengthened the lek and allowed the BoA to continue a prudent easing of the monetary policy stance while maintaining reserves at comfortable levels. On the fiscal front, current expenditure, the deficit, and domestic borrowing have been curtailed, and the 2005 budget delivered the first surplus on current operations since the beginning of the transition process. The public debt burden has been considerably reduced, reflecting foreign debt restructuring, fiscal consolidation, rapid economic growth, and the allocation of half the proceeds of large privatizations to redeem domestic debt. The debt to GDP ratio declined to an estimated 55 percent of GDP at end-2005—a reduction of 9½ percentage points since end-2002.

3. **We have also made progress in structural reform**. In the banking sector, following the privatization of the Savings Bank in 2004, all commercial banks are now under private management and the banking system is displaying significantly increased levels of dynamism and competitiveness. With rapidly rising credit volumes and greater provision of services, the system is now poised to play a more pivotal role in economic development. Complementing these developments, the completion of the real-time gross settlement system, bulk settlements system, and significant progress in switching public sector salary payments from cash to the banking system are encouraging the use of banks for a variety of economic transactions. In the fiscal area, adoption of realistic revenue projections—accurately reflecting the limited capacity of tax and customs administration—and other reforms to the budget process—including greater parliamentary oversight—have enhanced the transparency of our fiscal expenditure and budget processes. The privatization process is by now quite advanced, pending the finalization of the sale of Albtelecom expected in early 2006 and given the advanced state of preparations for the sale of the Italian-Albanian Bank. Should these privatizations occur, half of the receipts will be used to reduce public debt and the other half expended in priority areas. In the statistical area, we have made progress towards producing more comprehensive and reliable national accounts and other economic and social indicators; we have also adopted our first Statistical Master Plan that sets out our priorities

for the coming years. External arrears left over from before the transition have been greatly reduced.

4. **Reform of our revenue agencies has also been generally positive, although much more remains to be done**. The ASYCUDA system has been extended to 9 customs houses, together with related procedural reform in customs administration, including the implementation of the ASYCUDA system risk assessment module for conducting inspections in 2 customs houses. We have implemented a quick VAT refund system for exporters and progressed as planned towards eliminating the stock of VAT refund arrears—both measures aimed at providing much-needed improvement to the efficiency and equity of the tax system.

5. **Progress in some key areas, however, has been less than satisfactory.** Deficiencies in our business climate due to poor infrastructure and weaknesses in governance and institutions continue to deny our economy the investment—particularly foreign investment—needed to boost productivity and expand exports. The recent disruptions in electricity supply, due to poor water reserves management until early September and ill-designed procurement rules, call attention to the need for further large investments and structural reform in the energy sector. Despite the steps taken in recent years, including a FIAS supported review of administrative barriers to investment, the business environment remains uninviting. On the fiscal front, continued weaknesses in revenue administration and public debt management leave our economy vulnerable to economic shocks. Moreover, the quality of public expenditure requires improvement so that we may better utilize scarce resources for economic development and poverty reduction. Albeit to a lesser degree, further reform and modernization are also needed in the financial sector. Regarding poverty, though some key indicators have improved in recent years, advances are not uniform and a few indicators, such as enrollment ratios in education, need improvement.

II. Objectives and Policies

6. **Our program for the next three years will therefore concentrate on maintaining macroeconomic stability, enhancing growth potential, reducing vulnerabilities and strengthening government solvency**.

- Macroeconomic stability will be ensured through further fiscal consolidation—centered on a steady reduction of domestic borrowing and improvement in the current and primary balances; and through strengthening the monetary policy framework and financial supervision capacity.

- Growth potential will be enhanced through revenue and expenditure reforms that promote high quality public and private investment; by pursuing further structural reforms, such as completing the privatization process, improving the commercial court system and the process of land title registration; and by improving the business environment. Moreover, investments in alternative energy sources and the restructuring of KESH should help reduce the inherent volatility of electricity supply, which remains one of the economy's main sources of vulnerability.

- Declining levels of public debt relative to GDP, together with improvements in revenue administration and public debt management, as well as reforms that limit contingent liabilities (e.g., in the electricity sector), should strengthen government solvency and reduce fiscal vulnerabilities. Significantly lengthening the average maturity of domestic public debt will be a critical measure in this regard.

A. Macroeconomic Framework

7. **The program is built on a realistic macroeconomic framework**. Real GDP growth is projected to fall to 5 percent in 2006, from an estimated 5½ percent in 2005, as a result of the difficult situation in the electricity sector. However, as the issues in this sector are gradually resolved and import and production capacity improve, we anticipate a return to the historical 6 percent trend, reinforced by rising investment due to improvements in our business climate. An appropriate monetary policy stance, supported by a flexible exchange rate regime, should hold inflation to 3 percent—with a tolerance range for deviations of plus or minus one percent—while ongoing fiscal consolidation will allow a steady improvement in government solvency. Public savings will rise over the program period as we improve our revenue administration and reduce the share of current expenditure in total spending—including through lower interest costs resulting from better debt management. We also anticipate a rise in private—mainly corporate—savings in response to ongoing structural reform and rapid economic growth. With public and private investment rising at a lower pace, the current account will gradually improve and the growth contribution of net exports will rise. In recognition of our continued fiscal vulnerability, we have protected this framework from unforeseen shocks through the use of budgetary contingencies, conservative estimates of tax revenue and privatization receipts, and by a policy of not expending the gains from tax administration reforms before their realization. In the event additional receipts from the latter or privatization materialize, we will consult with the Fund on an appropriate division between additional priority expenditure, tax cuts, and debt reduction; and will submit to parliament a supplementary budget.

B. Monetary, Exchange Rate, and Financial Sector Policies

8. **We will direct monetary policy towards keeping inflation at 3 percent—with a tolerance range for deviations of plus or minus one percent**. Our current monetary policy framework—a reserve money program with quantitative targets set in consultation with the Fund and with changes to the repurchase rate as the main policy instrument—will be retained over the program period so long as it remains effective in controlling inflation. We expect over the medium term that velocity and the money multiplier will remain relatively stable, and that our existing framework will be sufficient to hold inflation within the target band. Nonetheless, we recognize that our past success in this regard took place largely in the context of a relatively underdeveloped banking system providing very low volumes of private sector credit. This environment is changing rapidly—credit growth exceeded 70 percent in October 2005, and both demand and supply of credit are expected to remain strong into the medium term. While our overwhelming preference is that monetary policy instruments remain market based, given the limited effect of policy rate changes on credit

demand—particularly on foreign currency denominated credit demand—the temporary use of direct instruments for controlling credit provision—in consultation with the Fund—cannot be ruled out at this stage.

9. **We will retain a flexible exchange rate regime, with foreign exchange interventions limited to smoothing seasonality and short term shocks, and maintaining an adequate reserve level**. The flexible rate provides a cushion to potential macroeconomic shocks, thereby reducing overall vulnerability. Our medium-term goal of moving to an inflation targeting regime also argues for the preservation of a flexible exchange rate. In this regard, with assistance from the Fund, we are in the process of identifying the necessary steps and formulating an action plan, which we hope to be able to begin implementing soon.

10. **Our efforts at structural reform in the financial sector over the program period will be guided by the recently completed Financial Sector Stability Assessment (FSSA) report**. We will set up a joint government-BoA task force to work with Fund staff to develop an action plan to implement the recommendations of this report (SB; end-March 2006). Measures will aim at improving financial intermediation and supervisory capacity, reducing the use of cash in the economy, and promoting greater efficiency in the financial sector. Within the action plan, strengthening supervisory capacity in the insurance and private pension industries, and the establishment of effective and independent regulatory authority will be a priority.

11. **While the action plan is being prepared, we intend to complete the reforms initiated under the previous program**. The payment of public sector wages through the banking system is now in place for over 75,000 employees, which may be a practical limit as the remaining employees are located far from bank offices. However, to the extent possible, we will endeavor to extend this system further, by including additional employees of state-owned enterprises and by encouraging the payment of taxes and utility bills in this fashion. Given the rapid growth of credit, we are taking steps to prevent deterioration of the quality of commercial bank loan portfolios. In this regard, we are in discussion with the World Bank and the Albanian Bankers' Association for assistance in setting up a credit bureau, initially inside BoA and will move ahead on this front as quickly as possible. We are also working with the Ministry of Justice to streamline the procedures for the execution of collateral, which are currently ineffective. In the insurance sector, we will seek technical assistance—including the appointment of an advisor—to strengthen prudential supervision in the short term. In addition, given the imminent launch of private pension funds, we will, as a matter of priority, seek technical assistance to modernize the legal framework for this industry. The treasury bill window at BoA will be maintained, but, in line with our goal of decreasing the use of cash for economic transactions, we will insist on the use of the new bulk settlement system as a means of payment. We will accelerate preparations to divest government's minority interest in the remaining commercial bank; and will refrain from creating any public financial institution or from taking an equity stake or issuing any explicit or implicit government guarantee to any financial institution. We will take no legislative or regulatory action that weakens the independence of the BoA, including the full control over the Bank's

budget—including staff compensation levels—currently exercised by the BoA's Supervisory Board.

C. Fiscal Policy

12. **The 2006 budget and medium term fiscal framework have been designed to strike a balance between debt reduction and the need for growth-enhancing and poverty reducing expenditure**. Over the program period, we expect a further 1 percentage point decline in public debt relative to GDP, and a fall in recourse to domestic financing from 2.8 percent of GDP in 2005 to 2.4 percent in 2008. Total expenditure relative to GDP is programmed to rise by only ¼ percentage point. This is in part a reflection of conservative revenue projections that make no allowance for revenue gains from tax administration measures, and will rise if the expected gains from revenue administration reforms materialize. Within the programmed envelope we intend to refocus expenditure towards more productive uses. Thus, over 2005-08, we project an improvement in the current balance relative to GDP of about 1½ percentage points and an improvement in the primary balance of about ½ percentage point of GDP.

13. **The 2006 budget was approved by Parliament in December 2005, satisfying a prior action for approval of this program**. It represents a conservative budgeting strategy that we intend to adopt throughout the program period. The budget incorporates tax measures to raise revenue by ¼ percent of GDP, but makes no allowance for immediate gains from tax administration measures. Contingencies, at about ¾ percent of GDP, are twice as large as in 2005, including allocated contingencies that will only be released, after consultation with the Fund, conditional on meeting the indicative total tax revenue target for end-June 2006 in the program. We have utilized conservative estimates for interest costs**,** privatization receipts, and assumptions concerning the macroeconomic framework. However, if there is a sustainable over performance—specifically if the expected gains from tax administration efficiencies materialize and/or higher privatization receipts are achieved in the first half of the year—we will, following a discussion with the Fund, submit to parliament a supplementary budget. In 2006, we will expend in full any extra revenue accruing through tax administration gains, but for privatization receipts will maintain the same formula developed during the previous program—half the revenues will be used to reduce domestic debt, and half will be spent on well-designed infrastructure projects. However, we will consider the use of a relatively small portion of this latter share to compensate former owners of property. In subsequent years, we will, in consultation with the Fund, consider applying the privatization formula to both sources of additional revenue.

14. **Structural measures in the fiscal area will concentrate on reforming the revenue administrations, raising the quality and efficiency of expenditure, and improving debt management capacity**. A major objective of the new program will be to reshape the revenue collection agencies into modern organizations relying on self-assessment and voluntary compliance through simple and transparent procedures, as well as vigorous enforcement. A cornerstone of this will be our full compliance with existing legislation and regulation regarding human resource issues and procedures. Having cleared almost all of the overdue

VAT refund claims in 2005, we intend to deal with all current claims on a timely basis and within the terms stipulated in the law. We will strengthen the payment discipline of budgetary units—particularly with respect to the payment of electricity and water bills, and facilitate this process by ensuring the installation of electricity meters in all budgetary institutions by mid-2006. Looking ahead, we intend to approve a new organic budget law aimed at enhancing the efficiency of public expenditure management, including by improving budget classification standards and by increasing parliamentary oversight and the accountability of the public administration.

15. **Measures to reform the tax administration will be guided by recommendations of a recent Fund technical assistance mission, which we developed into an action plan as a prior action for approval of this program**. The action plan addresses, over the course of the program, key governance concerns and operational and administrative deficiencies that currently engender vulnerability and substandard tax compliance.

- Collection efforts will be refocused on large taxpayers. Reflecting this, as prior actions for approval of this program, we included all firms meeting set criteria within the large taxpayer unit (LTU); and integrated the audit of social security contributions into the LTU's audit capacity.

- Subsequent actions outlined in the action plan are designed to further strengthen firms' compliance with tax laws once inside the LTU. The share of tax revenue collected by the LTU—currently low by regional standards—will be increased to 50 percent of all tax collected by end-June 2006 (SB)[1]. Measures adopted in this area will include continued refinement of inclusion criteria for the LTU; as well as actions to address the large under-reporting of the numbers of employees that currently depress receipts from social security and personal income tax.

- We have cleared almost all VAT arrears originating prior to June 2004—the remainder will be cleared in 2006. To further improve VAT administration, we will prepare and provide quarterly reports to the Fund on the aggregate amounts of VAT refunds requested, paid, and rejected (SB; ongoing).

- Other reforms will be aimed at promoting the efficient utilization of General Department of Taxation (GDT) resources and improving governance. In this regard, IT systems and reporting will be improved; and higher standards of quality among employees will be developed, including through increased use of civil service examinations. Greater use will be made of risk-assessment software in the selection of audits; while the design of audits will shift from a comprehensive to a more narrow or single-issue focus. The GDT office structure will be rationalized; the role of the tax

[1] As defined in the Technical Memorandum of Understanding (TMU).

police will be reviewed; and better reporting capabilities and practices will be instituted.

- The Ministry of Finance will contract an NGO specializing in anti-corruption activities to operate tax and customs hotlines to better enable the public to report cases of corruption. In addition, we will initiate confidential questionnaire-based surveys in the customs office and the LTU, administered by an independent private firm, to collect information on corruption in these institutions and to chart improvement over time.

16. **Reforms within the customs administration will be focused in the short term on completing the implementation of the ASYCUDA computer system**. The ASYCUDA system—including the risk assessment-based inspection selection module—will be deployed in 10 customs houses by end-March 2006 (PC). A report on progress in the utilization of the risk module will be issued on a quarterly basis (SB; ongoing).

17. **With assistance from the World Bank, measures will be pursued to raise the quality, efficiency, and productivity of expenditure and create room for additional public investment and priority spending**. Civil service reform will be pursued with the goals of developing capacity to hire and retain skilled personnel, increase accountability, apply transparent procedures for promotions, and ultimately improve the effectiveness of public administration and services. In preparation for this a census of all budgetary sector employees, including their salary levels and other compensation, will be completed by end-June 2006 (SB). The institutional framework for evaluating and prioritizing public investment projects will be strengthened, including through the preparation of a public investment program as part of our Medium-Term Budget Framework (MTBF) to be reviewed by the World Bank. The MTBF will then contain all the investments already contracted by government and planned for the next three years including projected disbursements, amortization, and rate of return. In preparation for this, we will (i) establish and staff a public investment program department within the General Directorate of the Ministry of Finance (SB; end-June 2006); and (ii) prepare and issue instructions for submitting public investment proposals consistent with the budget and the medium-term budgetary plan (SB; end-June 2006). In order to safeguard the use of nonconcessional project loans, we will conduct an independent feasibility study for any large project[2] financed in this manner (SB;ongoing), and provide to the Fund a biannual listing and status report of all projects being considered for nonconcessional foreign financing (SB;ongoing).

18. **Improving public debt management is a central goal of the new program**. The institutional capacity for public debt management is currently limited, while the short maturity of public debt raises vulnerability. A comprehensive action plan for improvement will be developed (SB;June 2006) following a Fund diagnostic mission tentatively scheduled

[2] As defined in the TMU.

for early 2006. The objectives would, in principle, include a significant increase in the maturity structure of public debt, improvement of terms, significantly expanded capacity in analysis and risk management, better management of data, and the ability, by the end of the program period, to independently produce debt sustainability reports. As part of the reform effort, we will also develop a public debt law that clearly defines responsibilities of different units; begin the preparation and publication of an annual debt strategy; and take steps to attract and retain qualified staff. As a first step to gaining direct access to international capital markets, the process of obtaining a country credit rating will be initiated as soon as possible.

19. **We shall develop a tax reform strategy in line with our overall priorities for the coming four years and base future tax policy measures on this strategy and our medium-term fiscal framework.** The most important goal for tax policy reforms is to promote employment and investment in the formal economy. Given that the tax wedge is high by international standards, we might consider using part of the revenue gains from tax administration reform, if and when they materialize, to reduce it. When deciding on tax reform measures, in order to preserve fiscal discipline, we shall pay particular attention to assessing the likely impact of different options based on quantitative analyses of tax collection data and the relevant experience of other transition economies.

D. Other Structural Reform

20. **We have taken measures to restore the supply of electricity and will take further action to reverse the deterioration in the performance of KESH**. We have also introduced new procurement rules that have already facilitated electricity imports and transmission from neighboring countries. We are preparing, in collaboration with the World Bank and other donors, an updated Power Sector Action Plan for 2006-2008. Meeting the targets for collection rates and losses set out in this plan will be a structural performance criterion for end-March 2006. We have reconciled the arrears between KESH and its budgetary and non-budgetary public consumers, including water supply companies, and paid the outstanding 2005 amounts. We will continue our policy, introduced in 2005, not to provide subsidies for imports of electricity. Given the high level of electricity imports expected in 2006 and the time it might take for domestic production to return to normal, we will use alternative means to support KESH during its financial recovery. These will include loans that could be contracted from the private banking sector, preferably without government guarantee, and government support for the ongoing rationalization of the electricity tariff structure to ensure cost recovery. In addition, we will re-evaluate the interpretation of the necessary collection efforts required by KESH to reclaim VAT on uncollectible invoices. We will continue the budgetary transfer to low income households and ensure that budgetary and non-budgetary public institutions honor their electricity bills in a timely manner. We will continue to work with the World Bank and other donors to restructure the water supply companies and to adjust water tariffs to properly reflect increased operating costs.

21. **We aim to upgrade Albania's transportation infrastructure to European standards.** Given Albania's limited financial resources, however, it is important that all large public investment projects are made within well-planned and prioritized national and

sectoral investment strategies, consistent with the available fiscal envelope. The NSSED and Albanian National Transport Plan (ANTP), financed by the European Union, provide such a framework. Therefore, new large projects, such as the Tirana-Durrës train rehabilitation project, should first be incorporated into these strategies before advancing them further. The ANTP suggests that measures are needed to restructure the Albanian railways (HSH), improve services, support cost recovery and enhance the sustainability of railway operations. Once such restructuring is underway, some limited investments may thus be justified on the Tirana-Durres line within the context of a sound business plan for HSH.

E. External Policies

22. **We will retain our liberal trade regime and continue to implement the remaining commitments made to the WTO regarding tariff policies, with an ultimate goal of concluding a Stabilization and Association Agreement and a free trade agreement with the EU**. The technical negotiations with the EU in relation to the free trade agreement are at an advanced stage. On a regional level, Albania has concluded free trade agreements with its neighboring countries, which has significantly boosted its exchange with them, albeit from a low base.

23. **We will continue to make good faith efforts to conclude the rescheduling of our arrears on inoperative payments agreements**. We are engaged in negotiations that aim at concluding the clearance process with official creditors by mid-2007; and with private creditors by mid-2008. We will provide biannual reports to the Fund on the outstanding stock of external arrears (SB; ongoing) within one month of the end of each quarter.

F. Data Issues

24. **We will improve our coverage of economic statistics over the program period as a precondition for improving economic policy formulation**. In 2006, we will prepare advance GDP estimates for the first half of 2005 and prepare and publish preliminary 2004 national accounts (both SB; March 2006). With donor support we will carry out a household budget survey and publish the results of the Living Standards Measurement Survey (LSMS), which will improve our assessment of poverty. We will also implement new methods to improve GDP calculations, statistics concerning the economic activity of enterprises, and the national accounts for the agricultural sector.

G. Program Monitoring

25. The second disbursement under the PRGF/EFF-supported program will be based on the end-March 2006 quantitative performance criteria (Table 1 and the TMU); the end-March 2006 structural performance criteria (Table 2 and the TMU); and completion of the first review and financing assurances review. The first review under the PRGF and EFF arrangements is expected to be completed no later than August 1, 2006 and the second review no later than February 1, 2007. During the program period, Albania will not impose or intensify restrictions on the making of payments and transfers for current international transactions; or introduce multiple currency practices, or conclude bilateral payments

agreements inconsistent with Article VIII, or impose or intensify import restrictions for balance of payments reasons. We will provide a fourth progress report on the NSSED by June 2006, taking into account the recommendations of the joint staff assessment of the 2005 progress report; and prepare a new NSSED for the 2007-09 period by end-2006.

Table 1. Albania: Quantitative Performance Criteria and Indicative targets, March-December 2006 1/

	End-March 2006	End-June 2006	End-September 2006	End-December 2006
	Prog.	Prog.	Prog.	Prog.
	(In billions of lek)			
Ceiling on net domestic credit to the government	7	12	18	24
Ceiling on accumulation of net domestic assets of the BOA 2/	3	8	7	9
Indicative total tax revenue target 3/	41	87	134	188
	(In millions of US dollars)			
Floor on accumulation of net international reserves of the BOA 2/	22	17	111	138
	(In millions of euros)			
Ceiling on contracting or guaranteeing of public and publicly-guaranteed non-concessional external debt with original maturities of more than one year	15	30	50	70
Ceiling on public and publicly-guaranteed external debt with original maturities up to and including 1 year 4/	0	0	0	0
Ceiling on accumulation of new external payments arrears, excluding interest on pre-existing arrears 4/	0	0	0	0

1/ The performance criteria and indicative targets outlined in this table, and their adjustors, are defined in the Technical Memorandum of Understanding (TMU). Targets are defined as cumulative changes from end-2005 except where marked. Data for end-March and end-September 2006 are performance criteria, except where marked. Data for end-June and end-December 2006 are indicative targets.

2/ Cumulative change from end-September 2005.

3/ Indicative target. Defined as all revenues collected by the GDT, GDC, and SSI. Aggregate revenue so defined includes all revenues collected on behalf of local governments, but excludes revenues collected by local governments directly.

4/ Applies on a continuous basis.

Table 2. Performance Criteria and Structural Benchmarks under the PRGF and EFF Arrangements

	Proposed Test Date
I. Prior Actions	
1. Parliament to approve 2006 budget in line with program targets.	Completed
2. Strengthen the Large Taxpayers Office (LTO) by:	
(i) Incorporating all firms meeting set criteria into the LTO.	Completed
(ii) Integrating the audit of social security contributions into LTO's audit	Completed
3. Develop and discuss with IMF staff an action plan for implementing the recommendations of the IMF technical assistance mission on tax administration.	Completed
II. Performance Criteria	
4. Further extend the use of ASYCUDA systems in customs administration:	
(i) Deploy the ASYCUDA system in 10 customs houses.	End-March 2006
(ii) Implement the risk assessment module of the ASYCUDA system in 10 customs houses to perform inspections.	End-March 2006
5. KESH to meet the targets under the 2006-2008 Power Sector Action Plan for end-March 2006 with regards to collection rates and losses.	End-March 2006
III. Structural Benchmarks	
A. Improve public expenditure management	
6. Complete a census of the wage bill for all budgetary sector employees.	End-June 2006
7. Strengthen public investment programming:	
(i) Establish and staff a public investment program department within the General Directorate of the Ministry of Finance.	End-June 2006
(ii) Prepare and issue instructions for submitting public investment proposals consistent with the budget and the Medium-Term Budgetary Plan.	End-June 2006
8. Safeguard the efficient use of nonconcessional foreign project loans:	
(i) Conduct an independent feasibility study for any large project (as defined in the TMU) financed through non-concessional commercial borrowing.	Ongoing
(ii) Provide a semestrial listing and status report on all projects being considered for nonconcessional foreign financing.	Ongoing
B. Reduce fiscal vulnerabilities	
Strengthen tax administration	
9. Improve VAT administration by preparing and providing to the Fund quarterly reports on the aggregate amounts of the VAT refunds requested, refunds paid and refunds rejected (within one month of the end of each quarter).	Ongoing
10. Increase the share of tax revenue collected by the Large Taxpayer's Office to 50 percent of all tax collected by end- June 2006.	End-June 2006
11. Prepare and issue quarterly reports on progress made in the actual use of the risk assessment module of the ASYCUDA system to perform inspections in the customs.	Ongoing
Improve debt management capacity	
12. Develop and discuss with IMF staff an Action Plan for implementing the recommendations of the IMF TA mission on debt management.	End-June 2006
13. Prepare biannual reports (within one month of the end of each semester) on the stock of external arrears.	Ongoing
C. Strengthen the financial system and improve economic monitoring capability	
14. Develop and discuss with IMF staff an Action Plan for implementing the recommendations of the Financial Sector Stability Assessment Report.	End-March 2006
15. Strengthen statistical and economic monitoring capacity:	
(i) Prepare advance GDP estimates for the first half of 2005.	End-March 2006
(ii) Prepare and publish preliminary national accounts for 2004.	End-March 2006

ALBANIA

TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum defines the quantitative benchmarks and performance criteria established in the Memorandum of Economic and Financial Policies (MEFP) up until December 2006; and associated reporting requirements.

A. Net Domestic Credit to the Government

1. For the purposes of the program, the **government** covers the State Budget, the Social Security Institute (SSI), and the Health Insurance Institute (HII).

2. **Net domestic credit to the government** (NCG) is defined as gross domestic credit in lek and in foreign currency extended to the government (as defined above) by the banking system, savings and loan institutions (SLIs), and other domestic lenders;[1] less the sum of government financial assets held in the banking system and in the SLIs.

3. The following definitions apply to **gross domestic credit to the government**:

(i) Gross domestic credit in lek and in foreign currency extended to the government includes: (a) securities (including treasury bills and bonds) issued by the government and held by the Bank of Albania (BoA), deposit money banks (DMBs), SLIs, and other domestic lenders; (b) loans and advances extended to the government by BoA, DMBs, SLIs, and other domestic lenders; and (c) negative balances in government deposits with BoA, DMBs and SLIs.

(ii) Gross domestic credit in lek and in foreign currency extended to the government excludes (a) the onlending of foreign project loans to all parts of government; and (b) advances on profit transfers by the BoA. The value of the stock of gross domestic credit to government will also exclude the claims held by the units of government as defined above (in particular, the SSI and the HII).

(iii) The stock of gross domestic credit extended to the government and held by the BoA and DMBs in the form of treasury bills will be valued at issue price. The stock of gross domestic credit extended to the government and held by the BoA in the form of other securities and direct loans to government will be valued excluding accrued interest. The stock of gross domestic credit extended to the government and held by the DMBs in the form of variable and

[1] Other domestic lenders comprise firms, nonbank institutions, and households.

fixed income securities (excluding treasury bills) will be valued at face value. The stock of all gross domestic credit extended to the government and held by SLIs and other domestic lenders will be valued at face value[2].

4. The following definitions apply to **government financial assets held in the banking system and in the SLIs**:

(i) Government financial assets held at the Bank of Albania include: (a) transferable deposits in domestic and foreign currency; (b) lek deposits held in BoA for projects; and (c) standard gold deposits of the government. For the purposes of program monitoring, standard gold deposits will be valued at the program price of gold (SDR 326.6 per ounce)[3].

(ii) Government financial assets held at the Bank of Albania exclude: (a) foreign currency deposits related to foreign financed projects; and (b) deposits serving as the counterpart for non-standard gold and other precious metals owned by the government.

(iii) Government financial assets held at the DMBs include: (a) all deposits of government in domestic and foreign currency; and (b) payable amounts owed by the DMB to government.

(iv) Government financial assets held at the SLIs include all deposits of government held at the SLIs.

5. For the purposes of program monitoring, government financial assets in foreign currency will be converted from Lek to SDRs at the end-of period Lek/SDR exchange rate prevailing on the test date; and then converted to Lek at the program Lek/SDR exchange rate of Lek 148.5/SDR.

6. The breakdown of the categories of net domestic credit to the government as defined above is given in Attachment Table 1.

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[2] Under current reporting standards, the following data is only available at face value: (i) the stock of gross domestic credit extended to the government and held by the DMBs in the form of fixed and variable income securities; and (ii) the stock of all gross domestic credit extended to the government and held by the SLIs and other domestic lenders.

[3] The lek value of standard gold deposits will be (a) converted to US dollars using the current end-of-period lek/US dollar exchange rate; (b) then converted to ounces of gold using the current US dollar market price of gold; (c) then converted to SDRs at the program price of gold (SDR 326.6 per ounce); and (d) then converted to Lek at the program Lek/SDR exchange rate of Lek 148.5/SDR.

7. The limits on the change in net domestic credit to the government will be cumulative from end-December 2005.

B. Net Domestic Assets

8. The stock of **net domestic assets (NDA) of the Bank of Albania** is defined as reserve money—defined as the sum of currency issue (less lek notes and coins held by the Bank of Albania) and commercial bank reserves held at the BoA—less the net international reserves of the Bank of Albania (Section C). For program monitoring purposes, all foreign currency assets and liabilities making up NIR will be valued in local currency at the exchange rates of end-September 2005. Under this definition, the level of NDA was Lek 82.0 billion as of end-September 2005. The NDA limits will be cumulative changes from end-September 2005 and will be monitored from the accounts of the Bank of Albania.

C. Net International Reserves

9. **Net international reserves (NIR)** are defined as reserve assets minus reserve liabilities of the Bank of Albania. **Reserve assets** are readily available claims of the Bank of Albania on nonresidents denominated in foreign convertible currencies, and held for the purpose of meeting balance of payments financing needs, intervention in exchange markets, and other purposes. They include Bank of Albania holdings of monetary gold, SDRs, Albania's reserve position in the IMF, foreign currency cash, securities, and deposits abroad. Excluded from reserve assets are any assets that are pledged, collateralized, or otherwise encumbered; claims on residents; precious metals other than monetary gold; assets in nonconvertible currencies; illiquid assets; and claims on foreign exchange arising from derivatives in foreign currencies vis-à-vis domestic currency (such as futures, forwards, swaps, and options). **Reserve liabilities** shall be defined as foreign exchange liabilities to residents and nonresidents of the Bank of Albania, irrespective of their maturity. They include: foreign currency reserves of commercial banks held at the Bank of Albania; all credit outstanding from the IMF; commitments to sell foreign exchange arising from derivatives (such as futures, forwards, swaps, and options); and all arrears on principal or interest payments to commercial banks, suppliers, or official export credit agencies. Excluded from reserve liabilities are the government's foreign currency deposits at the Bank of Albania.[4] Reserve assets and reserve liabilities will both be expressed in U.S. dollars. The NIR limits will be cumulative changes from end-September 2005, and will be monitored from data supplied by the Bank of Albania.

[4] This exclusion is justified by current procedures in Albania, whereby the government's foreign currency receipts are deposited in a blocked account at the Bank of Albania and the funds are transferred to the government's lek account before being spent. A change in this procedure, would require revisiting the NIR definition.

10. During this program, for monitoring purposes, the exchange rates of the SDR and non-dollar currencies will be kept at their end-September 2005 levels and holdings of monetary gold will be valued at SDR 326.6 per ounce. Excluded from net international reserves are holdings of nonconvertible currencies, claims on nonresident financial institutions denominated in nonconvertible currencies, and other claims which are not readily available. Under this definition, the level of NIR was US$1,094.6 million at end-September 2005.

D. Adjusters for NCG, NDA, and NIR

11. The NCG and NDA ceilings and the NIR floor are defined on the assumption that total privatization proceeds will amount, on a cumulative basis, from January 1, 2006, to:

End-March 2006	Lek 750 mn. (Of which: US$0.0 mn. in foreign currency);
End-June 2006	Lek 970 mn. (Of which: US$0.0 mn. in foreign currency).
End-September 2006	Lek 3,000 mn (Of which: US$19.8 mn. in foreign currency).
End-December 2006	Lek 3,000 million, (Of which: US$19.8 mn. in foreign currency).

The NIR floor will be adjusted upward (downward) and the NDA ceiling adjusted downward (upward) by half of any excess (shortfall) in the receipt of privatization proceeds in foreign currency from these assumed values. The NCG ceiling will be adjusted downward (upward) by half the amount of any excess (shortfall) in the receipt of total privatization proceeds from these assumed values.

12. The ceilings on NCG and NDA, and the floor on NIR are defined based on the assumption that foreign budgetary and/or balance of payments loan financing (excluding IMF financing, project and commodity loans, and macro-financial assistance from the EU) will amount, on a cumulative basis, from January 1, 2006, to:

End-March 2006	US$ 0.0 million
End-June 2006	US$ 0.0 million
End-September 2006	US$ 0.0 million
End-December 2006	US$ 0.0 million

In cases where total foreign loan financing exceeds this projection, the ceilings on NCG to the government and NDA of the Bank of Albania will be adjusted downward, and the floor on NIR will be adjusted upward by the amount of the excess[5].

[5] For the NCG adjuster, the lek equivalent of deviations from the programmed amounts in terms of dollars is converted at an exchange rate of Lek 102.5 per U.S. dollar**.**

13. The NDA ceilings will be also adjusted to reflect the impact of any change in the required reserve ratio of commercial banks with the Bank of Albania.

E. External Debt and Arrears

14. As set forth in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (Decision No. 12274–00/85) August 24, 2000), the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair or maintenance of the property. Arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

15. The limit on medium- and long-term external debt applies to the contracting or guaranteeing by the government or the Bank of Albania, of new nonconcessional external debt with an original maturity of more than one year. It applies not only to debt as defined in paragraph 14 of this memorandum, but also to commitments contracted or guaranteed for which value has not been received. External debt will be considered to have been contracted at the point the loan agreement or guarantee is ratified by the Albanian parliament. Excluded from the limits are refinancing credits and rescheduling operations (including the deferral of interest on commercial debt), credits extended by the IMF, and credits on concessional terms defined as those with a grant element of at least 35 percent. The grant element is to be calculated using the OECD Commercial Interest Reference Rates (CIRRs): for maturities of less than 15 years, the grant element will be calculated based on six-month averages of CIRRs; and for maturities longer than 15 years, the grant element will be calculated based on ten-year averages. Debt falling within the limit shall be valued in euros at the exchange rate prevailing at the time the contract or guarantee becomes effective.

16. The limit on short-term external debt applies on a continuous basis to the stock of short-term external debt owed or guaranteed by the government or the Bank of Albania, with an original maturity of up to and including one year. It applies to debt as defined in paragraph 14 of this memorandum. Excluded from the limit are rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits. Debt falling within the limit shall be valued in Euros at the exchange rate prevailing at the time the contract or guarantee becomes effective.

17. A continuous performance criterion applies on the accumulation of new **external payments arrears** on external debt contracted or guaranteed by the government or the Bank of Albania. External payment arrears consist of external debt service obligations (principal and interest) falling due after September 30, 2005 and that have not been paid at the time they are due, taking into account the grace periods specified in the contractual agreements. Excluded from the prohibition on the accumulation of new arrears are: (i) arrears arising from interest on the stock of arrears outstanding as of September 30, 2005; and (ii) external arrears that are subject to debt rescheduling agreements or negotiations.

18. **Large projects** (as referred to in MEFP paragraph 17 and MEFP Table 2) financed by nonconcessional foreign borrowing are defined as those projects involving total nonconcessional foreign borrowing in excess of Euro 20 million.

19. **The budget commitments related to the contingencies embodied in the 2006 budget** will be released after the following conditions are satisfied:

> (i) At end-June 2006, actual revenue collection, defined as all revenues collected by the GDT, GDC and SII (including all revenues collected on behalf of local governments but excluding revenues collected by local governments directly) is in line with the indicative total tax revenue target specified under the program;
>
> (ii) The decision to release the budget commitments related to the contingencies is taken in consultation with the Fund.

20. A census of the wage bill will be carried out for all employees paid through the government budget. The information collected will include salary and bonuses, grade, and position.

F. Tax Revenues

21. Collection of total tax revenue by the Tax and Customs Departments and social insurance contributions will be monitored on the basis of quarterly indicative floors. These indicative floors will include all revenues collected by the GDT, GDC, and SSI (including revenues collected on behalf of local governments), but exclude revenues collected by local governments directly.

22. For the purpose of meeting the structural benchmark referred to in MEFP paragraph 15 (that the share of taxes collected by the Large Taxpayer Office (LTO) will increase to 50

percent by end- June 2006), the following definition will apply. The share of taxes collected by the LTO will be calculated as the ratio of all taxes collected by the LTO to the total collection of all taxes administered by the GDT (VAT, excises, corporate income taxes, personal income taxes, social security contributions, national taxes, taxes on packages, and gambling taxes). In calculating this ratio, social security contributions paid by budgetary institutions will be excluded from the denominator. The structural benchmark will be deemed to have been met if this ratio—defined as above— is equal to or larger than 50 percent for revenue collected between April 1 and June 30 2006, inclusive.

G. Monitoring and Reporting Requirements

23. Performance under the program will be monitored from information supplied to the Fund by the Bank of Albania, the Ministry of Finance, the General Directorate of Taxation (GTD), the General Directorate of Customs (GDC), the Ministry of Economy and INSTAT. This information will include the following, which will be supplied monthly (except where noted) and on a timely basis:

The Bank of Albania will supply to the Fund:

(i) The balance sheets of the Bank of Albania;
(ii) The consolidated accounts of the commercial banks and (separately) the SLIs;
(iii) The monetary survey;
(iv) Banking sector prudential indicators;
(v) Net domestic credit to the government (in the form outlined in Appendix Table 1);
(vi) The net foreign assets of the Bank of Albania and their components;
(vii) Comprehensive information on reserve assets that are pledged, collateralized, or otherwise encumbered.
(viii) The foreign exchange cashflow of the Bank of Albania, including the level of NIR;
(ix) Daily average exchange rates;
(x) Trade flows;
(xi) Periodic updates of balance of payments estimates;

The Ministry of Finance will supply to the Fund:

(i) The summary fiscal table, including the overall budget deficit, on a cash basis;
(ii) Issuance of treasury bills by the MOF, including gross value and cash received;
(iii) Privatization receipts;
(iv) Information on the contracting and guaranteeing of new debt;
(v) Information on the stock of short-, medium- and long-term debt;
(vi) Information on all overdue payments on short-, medium- and long-term debt (with assistance from the Bank of Albania).
(vii) Information on the stock of VAT refunds claimed and refunds paid out every month will be supplied within one month of the end of the reporting period.
(viii) Information on official grants for projects or budget support purposes.

(ix) Biannual reports on the stock and clearance of outstanding debit balances of inoperative bilateral payment agreements will be supplied within one month of the end of the semester.
(x) Information on expenditure arrears;
(xi) A biannual listing and status report of all projects being considered for nonconcessional foreign financing.

The General Directorate of Customs will supply to the Fund:

(i) Detailed monthly data on customs revenues collected; and
(ii) Quarterly reports on corrective measures taken to deal with problems identified by the internal audit function.

The General Directorate of Taxation will supply to the Fund:

(i) Detailed monthly data on tax revenues collected.
(ii) Monthly data on the ratio of tax revenue collected by the LTO, as defined in paragraph 21 of this TMU.

The Ministry of Economy will either report quarterly to the Fund or publish quarterly:

(i) All instances of nonpayment on the agreed memorandums of understanding for the repayment of the stock of end-December 2001 inter-enterprise government arrears. It will communicate to the Fund progress in clearing the inter-enterprise government arrears accumulated in the years 2002 to 2005.
(ii) A description of remedial actions undertaken by the ministry in the event of non-payment on the agreed MOUs for the repayment of the stock of end-December 2001 inter-enterprise arrears.

The Albanian Statistical Agency (INSTAT) will supply the Fund:

(i) The consumer price index (CPI index) at the aggregated level and at the level of each individual item making up the basket.
(ii) The producer price index.
(iii) The construction cost index
(iv) All short term indicators as they become available as defined in INSTAT's quarterly publication "Conjoncture".
(v) In addition INSTAT will communicate to the Fund on a regular basis the preliminary estimates for Quarterly GDP. It will also communicate as early as possible the preliminary estimates for annual GDP disaggregated by 22 sectors and distinguishing between the observed and non-observed economy.

Table 1. Albania: Calculation of Net Domestic Credit to Central Government for Program Monitoring Purposes, September 2005–June 2006
(In millions of lek)

		Sep-05	Dec-05	Mar-06	Jun-06	Sep-06	Dec-06
1.	**Treasury bills held outside central government**	274,926					
Of which:							
1. (i)	Held by Bank of Albania 1/	66,499					
1. (ii)	Held by deposit money banks 1/	178,677					
1. (iii)	Held by savings and loan institutions 2/	0					
1. (iv)	Held by other domestic lenders (excluding holdings of HHI and SSI) 2/	29,750					
	Of which:						
1. (iv) (i)	INSIG	1,562					
1. (iv) (ii)	Individuals and firms	28,188					
1. (iv) (ii) (i)	Of which: BoA window	17,083					
Plus:							
2.	**Other central government debt held outside central government (millions of lek)**	34,374					
Of which:							
2. (i)	Held by Bank of Albania 3/	2,964					
2. (i) (i)	Other securities 3/	964					
2. (i) (ii)	Short-term direct loans to government 3/	2,000					
2. (ii)	Held by deposit money banks 4/	31,410					
2. (ii) (i)	Fixed income securities 4/	31,410					
2. (ii) (ii)	Variable income securities 4/	0					
2. (iii)	Held by savings and loan institutions 5/	0					
2. (iv)	Held by other domestic lenders 5/	0					
Equals gross domestic credit to government:		309,300					
Less:							
3.	**Assets of central government (excluding HHI and SSI)**	5,443					
3. (i)	Deposits held at Bank of Albania 6/	3,736					
3. (i) (i)	In domestic currency	1,964					
3. (i) (i) (i)	Transferable deposits in lek	1,378					
3. (i) (i) (ii)	Deposits in lek for projects	586					
3. (i) (ii)	In foreign currency at program exchange rates and program price of gold 7/ 8/	1,772					
3. (i) (ii) (i)	In foreign currency evaluated at current exchange rates	1,920					
3. (i) (ii) (i) (i)	Transferable deposits in foreign currency evaluated at program exchange rate 7/	117					
3. (i) (ii) (i) (i) (i)	Transferable deposits in foreign currency evaluated at current exchange rate 9/	110					
3. (i) (ii) (i) (ii)	Standard gold deposits of government evaluated at fixed exchange rate and gold price (Lek mns.) 8/	1,655					
3. (i) (ii) (i) (ii) (i)	Standard gold deposits of government at current exchange rate and gold price (Lek mns.) 8/	1,809					
3. (i) (ii) (i) (ii) (i) (i)	Number of ounces of gold equivalent	37,297					
3. (ii)	Assets held at deposit money banks	1,707					
3. (ii) (i)	Deposits 10/	1,111					
3. (ii) (i) (i)	Deposits in domestic currency	207					
3. (ii) (i) (i) (i)	Transferable deposits in domestic currency	207					
3. (ii) (i) (i) (ii)	Other deposits in domestic currency	0					
3. (ii) (i) (ii)	Deposits in foreign currency evaluated at program exchange rates	904					
3. (ii) (i) (ii) (i)	In foreign currency evaluated at current exchange rates 7/	853					
3. (ii) (i) (ii) (i) (i)	Transferable deposits in foreign currency evaluated at current exchange rates	853					
3. (ii) (i) (ii) (i) (ii)	Other deposits in foreign currency evaluated at current exchange rates	0					
3. (ii) (ii)	DMB payables to government	597					
3. (iii)	Held at savings and loan institutions 10/	0					
Less:							
4.	**Deposits of HHI and SSI**	2,000					
Equals:							
5.	**Stock of Net domestic credit to central government (1+2-3-4)**	301,857					
5. (i)	Change since September 2005	0					
6.	Memorandum items:						
6. (i)	Current exchange rate (Lek/SDR, eop)	149.2					
6. (ii)	Current exchange rate (Lek/US dollar, eop)	102.5					
6. (ii)	Program exchange rate (Lek/SDR, eop)	148.5	148.5	148.5	148.5		
6. (iv)	Program price of gold	326.6	326.6	326.6	326.6		
6. (v)	Market price of gold (price in US dollars per ounce)	473.4					
6. (vi)	Current exchange rate (US dollar per SDR, eop)	1.4566					

1/ Evaluated at issue price.
2/ Evaluated at face value (data on treasury bill holdings of SLAs and other domestic lenders are currently available only at face value).
3/ Excludes accrued interest.
4/ Valued at face value (data on fixed and variable income securities held by DMBs are currently available only at face value).
5/ Includes accrued interest.
6/ Includes transferable deposits of government in domestic and foreign currency, lek deposits of government for projects; and standard gold deposits of government. Excludes all non-standard gold deposits; and excludes all nongold precious metal deposits of government; and excludes government deposits in foreign currency for projects.
7/ The reported lek value of foreign currency denominated assets of government will be converted to SDRs using the current end-of-period lek/SDR exchange rate; and then converted back to lek using the program Lek/SDR exchange rate of Lek 148.5/SDR.
8/ Standard gold deposits are usable by government and therefore included in the definition of government assets. The lek value of standard gold deposits will be (a) converted to US dollars using the current end-of-period lek/US dollar exchange rate; (b) then converted to ounces of gold using the current market price of gold; then (c) converted to SDRs at the program price of gold of SDR 326.6 per ounce; and then (d) converted to lek at the program Lek/SDR exchange rate of Lek 148.5/SDR.
9/ Including account set up to hold the Savings Bank privatization revenue (Account No: 11.2.2.1.4)
10/ Includes all deposits of government.