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

July 11, 2008

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, July 11, 2008

Mr. Dominique Strauss-Kahn  
Managing Director  
International Monetary Fund  
700 19<sup>th</sup> Street NW  
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

The current Fund-supported program, approved in January 2006, remains broadly on track. All quantitative and structural performance criteria have been observed and economic prospects remain favorable, both from the near- and medium-term perspectives. Growth continues to be buoyant, underlying inflation is low, and confidence in the currency and the banking system remains strong. Debt is on a declining and sustainable path. In addition, past and ongoing structural adjustment is now supplying tangible benefits to the economy. We are, consequently, well placed to fully implement the policies and reform agenda described in the attached Memorandum of Economic and Financial Policies (MEFP). These policies are consistent with our National Strategy for Development and Integration.

On this basis, we request completion of the financing assurances review, and completion of both the fifth review under the three-year Poverty Reduction and Growth Facility arrangement and the fifth review under the three-year Extended Fund Facility arrangement. We also request the sixth disbursement and purchase under these arrangements in an aggregate total amount of SDR 2.435 million.

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/

Sali Berisha  
Prime Minister

/s/

Ridvan Bode  
Minister of Finance

/s/

Ardian Fullani  
Governor, Bank of Albania

Attachments: Memorandum of Economic and Financial Policies  
Technical Memorandum of Understanding

## Memorandum on Economic and Financial Policies (MEFP) for Albania

### I. BACKGROUND AND ECONOMIC DEVELOPMENTS

1. This memorandum provides a detailed description of our policies over the remainder of the 2006–09 program period. It is fully consistent with our National Strategy for Development and Integration (NSDI), which was approved in February 2008.
2. **Our macroeconomic performance since the previous Article IV consultations has been solid.** We have enjoyed a prolonged period of rapid, non-inflationary growth despite the weather-induced disruptions of 2007. Production is becoming broader based as agriculture recovers from the last year's drought and the supply of electricity improves; and our inflation rate remains among the lowest in the region. Prudent fiscal policy was maintained and the public debt burden has been reduced from 58 percent in 2005 to 53 percent of GDP at end 2007, reflecting fiscal consolidation, rapid economic growth, and the allocation of half the proceeds of large privatizations to debt reduction. In 2008, the strong performance of exports continued, partly reflecting rapid expansion of new export products such as chromium. Still, the current account is likely to deteriorate by ½ percent of GDP as a result of adverse terms of trade, while this year's imports are again temporarily boosted by machinery and equipment needed for the construction of the large road project.
3. **But cost pressures are building.** Despite low underlying demand pressure on prices, higher food and energy prices again drove headline inflation above the BoA's target band in March through May 2008. However, the combination of 5 successive 25 basis points increases in the BoA's policy rate since mid-2006 and regulatory tightening staved off second round effects, leaving inflationary expectations well anchored at low levels.
4. **Tax revenue has over performed budget projections.** Personal income tax, VAT and corporate tax collections have been particularly strong. In response to the introduction of the flat tax and the reference wage, personal income tax collections more than doubled in the first quarter of 2008. Despite the reduction of the corporate tax rate, revenues did not decline as projected, as the number of corporate tax payers increased. At the same time, strong nominal growth, imports, and sales, but also administrative improvements, are boosting VAT.
5. **We have also made progress in structural reform, though this has lagged somewhat our success on the macroeconomic front.** We implemented reforms in tax and customs administration, debt management and the financial system; and improved the statistical and legal frameworks. However, poor payment discipline and attendant losses in the electricity sector continue.
  - **Tax administration:** More than half of the eligible taxpayers have already started using the Large Taxpayers Office (LTO). Following our campaign to increase the number of social security contributors, the number of contributors has increased by 30,000 in the first quarter of 2008. We have also moved to pay VAT refund claims automatically if validity checks are met (SB, end-April 2008). Finally, following an intensive debate, Parliament has approved the new tax procedures law.

- **Public expenditure and debt management:** We extended the maturity of domestic public debt to an average 421 days in May 2008, thus reducing rollover risk. The new IT system for conducting primary auctions of government securities has reduced operational risk. We decreased the frequency of 3- and 6-month T-bill auctions to a monthly basis, and started to publish the schedule for issuing government securities to the market for the next quarter, which will stimulate additional use of the interbank money market and the secondary market for government securities. We continue to conduct independent feasibility studies for any large project (as defined in the attached Technical Memorandum of Understanding—TMU) financed through nonconcessional borrowing; provide a semi-annual listing and status of all projects considered for nonconcessional financing; and prepare semi-annual reports on the stock of external arrears (all SBs; ongoing). Parliament adopted the new organic budget law.
- **Financial sector supervision:** The credit registry became fully operational and has been incorporated into our off-site examination procedures. It is used by banks in credit decisions, and by the BoA to improve risk management, assessment, and monitoring of delinquent loan levels. The Council of Ministers has approved legislation to transfer supervisory authority over leasing to the Bank of Albania (BoA) and, in the first quarter of 2008, we introduced additional regulations mandating improvements in banks' internal audit systems and treatment of large exposures.
- **Electricity sector:** The independent regulator (ERE) approved an around 19 percent increase in electricity tariffs, which became effective in March 2008. In the first quarter of 2008, we achieved a steady improvement in electricity losses, which were cut by 5 percentage points to 36.3 percent, but the collection rate declined to 73.7 percent—implying that only 47 percent of all electricity supplied is paid, a level far below that anywhere else in the region.

## II. STRATEGY, OBJECTIVES, AND POLICIES

6. **Our medium-term economic strategy aims to maintain macroeconomic stability and deliver continued strong, private sector-driven, growth.** While macroeconomic and financial sector stability are the essential prerequisites, rapid growth will also require significant progress in raising governance, institutions, and infrastructure to norms of advanced middle income countries.

- **Prudent and well-anchored fiscal policy is key to maintaining macroeconomic stability.** Continued adherence to our medium-term fiscal framework based on a small but increasingly efficient government remains the cornerstone of our strategy. To this effect, we are improving the efficiency of core activities and offloading remaining noncore functions to the private sector. Going forward, we will also give fiscal policy a greater role in demand management.
- **Our monetary policy framework will continue to be based on a 3±1 percent inflation target band, supported by a flexible exchange rate.** While changes to the

BoA repurchase rate will remain the main policy instrument, given the still underdeveloped transmission mechanism, we will continue to use regulatory measures to support monetary policy objectives and foster financial stability.

- **Improving the business climate and public infrastructure are essential to boost the economy's potential.** Our program addresses deficiencies through a wide range of institutional reforms, including with respect to the commercial court system and real estate title registration. We will continue making good progress on enhancing public infrastructure such as roads and ports. A private-sector dominated and diversified electricity sector is critical to ensure a stable supply of electricity at low cost.

### A. Macroeconomic Framework

7. **The medium-term macroeconomic framework envisaged at the start of the year remains appropriate.** Over the medium term, growth is projected to surpass 6 percent, beginning in 2008 as higher supply prices and the return of normal rainfall spur agriculture production and other sectors of the economy benefit from a more stable supply of electricity. Over time, better infrastructure, easing of market entry barriers, more competitive product markets, and governance and administrative reforms will support the needed gains in total factor productivity. Strengthening export growth, buoyant remittances, and declines in electricity and road-related imports will decrease our reliance on foreign savings and allow the current account deficit to return to more moderate and sustainable levels beginning in 2009.

8. **The main risks to this framework arise from the global inflation and growth outlook, fiscal slippages, threats to financial stability, and incomplete reform in the energy sector.** We will therefore retain policy vigilance, including by ensuring a broadly neutral fiscal stance, sufficient budgetary contingencies, proactive financial sector supervision, and tight oversight over energy reform.

### B. Fiscal Policy

9. **The 2008 mid-year budget review will contain the deficit at 5.2 percent of GDP.** This level avoids creation of a fiscal stimulus, when account is taken of the high import content of the large road project. We will cover the budget costs of compensation for the Gerdec explosion 0.2–0.3 percent of GDP from budgetary contingencies. To mitigate the social impact of increased foodstuff prices, we will use the wage and pension contingency (4.6 billion lek) to finance targeted subsidies to vulnerable segments of the population. Conversely, to avoid fueling a wage-price inflation spiral, we will hold personnel expenditures, including social insurance contributions, within the originally approved amount of 68 billion lek. We will use the revenue over-performance to pay for the infrastructure projects including recent cost overruns on the Rreshen-Kalimash road—whose total cost, excluding VAT, is now projected to amount to €630 million. We will also maintain a contingency of  $\frac{3}{4}$  percent of GDP that will allow us to contain further fiscal risks, including those resulting from any further cost overruns on the road and from KESH's financial difficulties. These contingencies would be assessed and reallocated at the next program

review. In addition, half the revenue of any unbudgeted privatization will continue to be used to reduce public debt and the other half for expenditure on well-conceived investment projects. Should the fiscal deficit target be in jeopardy, we stand ready, in consultation with the Fund, to take appropriate actions, including offsetting reductions in other expenditure.

10. **To signal our commitment to sound fiscal management, we will continue to reduce public debt, aiming to bring it below 50 percent of GDP over the medium term.** The annual implementation of this target will be carried out either through a cap on the overall fiscal deficit or expenditure consistent with that objective. We will consult with the Fund on the specific form of such rule best suited to Albania's specific circumstances.

11. **While changes in tax policy will be limited, further tax administration effort will be focused primarily on bringing actual collections in line with potential yields.** We will limit changes in tax policy in 2008 to increasing the property tax rate and the royalty tax imposed on extraction of minerals, raising the infrastructure impact tax on newly constructed buildings, further decentralizing certain national fees and charges to local governments, and introducing a new local charge on nonagricultural land. We are on track to increase the number of taxpayers paying social contributions (excluding contributions paid by agricultural workers and voluntary contributors) to 410,000 by the end-July 2008 (SB). We will continue to issue quarterly progress reports on the use of the risk assessment module of the ASYCUDA system to perform inspections in customs (SB; ongoing).

12. **Improving the implementation of capital projects remains a priority of public expenditure management.** Following the introduction of the new public investment management procedures and the new procurement law, we now focus on improving ministries' capacity to implement procedures. With external support, we are accelerating the training of investment officers, and introducing an integrated planning system to allow on-time monitoring of all public investment projects and facilitate any eventual reallocation.

### C. Reform of the Electricity Sector

13. **Apart from redressing financial losses in the electricity sector, we will also tackle poor payment discipline and reduce vulnerability to weather shocks.** We expect that privatization of the distribution arm of KESH will enforce more payment discipline and eliminate quasi-fiscal losses emanating from the power sector. We are also taking actions to diversify domestic generation and more fully integrate Albania into the regional power grid.

14. **We are progressing towards privatization.** With assistance from USAID, we established the required market structure and regulations for full vertical unbundling of KESH, and with assistance from the IFC, we have set up a program aimed at privatizing the distribution arm before end-2008. We have finalized the methodology for tariff adjustment and identified qualified bidders in June 2008. We are aware that the privatization agenda—while technically feasible within 2008—is subject to complex risks. The Ministry of Economy, Trade, and Energy is carefully monitoring the process to ensure close coordination between KESH, the regulator, IFC, and donors.

15. **A number of projects are underway to diversify electricity supply and further integrate into the regional networks.** Construction of a thermal power plant with a total cost of €97 million, financed jointly by the World Bank, EIB and EBRD, has already started. The plant will increase power supply by 700 GWh a year upon completion in mid-2009. A rehabilitation contract for the thermal power plant at Fier is under negotiation and will further increase supply by 800 GWh at completion. Additionally, to increase private sector involvement in generation, we are in the process of concessioning two new large hydro power plants. Work on a new transmission line to Montenegro has begun with assistance from KfW which, when completed in the second half of 2009, will significantly increase cross-border transmission capacity.

16. **Nevertheless, immediate measures to boost KESH's cash flow are important.** In addition to the recent increase in electricity tariffs, we have adopted a new action plan that aims at raising the effective collection rate to 60 percent by further reducing distribution losses to 32 percent and boosting collections to 89.6 percent. With higher technical losses in winter, this is consistent with raising the effective collection rate to 62 percent by end-October (SB). After clearing all past arrears of budgetary and non-budgetary institutions to KESH in 2007, we will ensure that these institutions henceforth pay power bills in a timely manner. KESH is expected to bill eligible customers at the higher regulated rate to recover import cost and the distribution fee. We adopted sufficient measures to reduce the quasi-fiscal losses of KESH to below 1.2 percent of GDP in 2008 (SB; mid-June, 2008). These measures include containing KESH's personnel cost, limiting the electricity imports to 2100 GWh this year and limiting local investment at 2.7 billion lek. If needed, we will take further measures to meet the quasi-fiscal losses target. These short-run improvements in the company's financing should also facilitate the privatization of the distribution arm.

#### **D. Monetary, Exchange Rate, and Financial Sector Policies**

17. **In the current less-benign global environment, our primary concern is to keep inflationary expectations anchored at low levels.** We will therefore react quickly to any rise in underlying price pressures that might signal the emergence of second round effects, including by proactively raising our policy rate if needed. We will also intensify our existing policy of maintaining open and transparent communications with the market. With the fiscal stance broadly neutral, a resurgence of credit growth and threats to financial stability remain the principal risks; and we will therefore continue to supplement monetary policy actions with efforts to further tighten the regulatory and supervisory environment to contain credit growth and safeguard the quality of the loan portfolio.

18. **We are pushing ahead with efforts to further strengthen regulation and supervision.** Data indicate that the banking system remains solvent, liquid and profitable, and point to only a slight deterioration in the level of nonperforming loans. We are mindful, however, that this portfolio has never been tested by adverse economic conditions and that its rapid growth can temporarily conceal an underlying deterioration. Also, collateral execution remains weak, particularly as concerns residential housing which makes up an increasing share of lending. During the remainder of 2008, we will implement the recommendations of the February 2008 IMF technical assistance mission and carry out additional actions to strengthen our capacity to safeguard the financial system. We will:



- Improve the legal and operational framework for executing collateral, including through changes to the Civil Code;
- Further enhance cooperation between BoA and the home country supervisors of resident foreign banks, with an aim to signing formal MOUs; and improve cooperation between the respective domestic financial supervisory authorities and the Ministry of Finance, in particular, to strengthen financial stability and contingency planning for crisis management;
- Enforce better monitoring and managing by banks of the indirect credit risk arising from the extension of foreign currency loans to unhedged borrowers by increasing the level of provisions required for such credit or assigning higher risk weights, setting overall exposure limits to unhedged borrowers at 400 percent of regulatory capital, and mandating that each bank establish a dedicated unit for risk management and economic analysis.
- Increase the transparency of banks towards their customers by mandating clear explanations of the terms and conditions of contracts, including effective interest rates, eliminating misleading marketing practices, and providing a mechanism for dealing with customer complaints. In addition, we will insist on timely disclosure by banks on various aspects of the bank's activities, such as financial performance, strategies and practices of risk administration, risk exposure, organizational structure; and
- Encourage further consolidation of the banking sector and clearly communicate this goal to the market, including by issuing specific provisions governing mergers and acquisitions. In the second half of the year, we will begin revising our regulations governing consumer credit, corporate governance, bank conservatorship and liquidation, and the construction of the capital adequacy ratio.

19. **We will further improve the financial sector architecture.** By end-October we will complete the development of a delivery versus payment (DVP) system for all forms of government securities (SB). As this system will include the capacity to execute private party repurchase agreements, it is expected to improve volumes in the interbank market which, though growing, remain relatively small due in part to perceived credit risk. The purchase and implementation of a fully automated central securities depository IT system is expected to be completed—with IMF assistance—by mid-2009.

20. **We will ensure that the BoA has a sound balance sheet and adequate level of capital.** We will continue to build up the BoA reserve fund to prudent levels, and work towards adopting international best accounting practices in the calculation of BoA profits. We will make securities issued to compensate BoA for unrealized valuation losses fully marketable by end-September. We will take no legislative or regulatory action that weakens the independence of the BoA, including its control over its budget and its authority to decide on compensation levels.

21. **We will continue reforms in the nonbank financial sector.** We will review and update all insurance laws and regulations by early 2009, with an immediate emphasis on the legislation governing motor vehicle third-party liability and reinsurance. We will consult with the Fund on the tax treatment of private pension funds during the drafting process of a new legal framework governing this industry, and aim to adopt the necessary legislation within 2008. Until the revised legal framework is adopted and supervisory capacity improves, we will continue to follow a prudent approach in the pension industry and restrict participation to the three companies already licensed.

### **E. External Policies**

22. **Prudent external borrowing will remain key to maintaining external debt sustainability.** We are committed to keep external nonconcessional borrowing within the program's cumulative ceiling of €680 million. In 2008, we will use €230 million of foreign bank loans to finance the Rreshen-Kalimash road project. We will continue to conduct independent feasibility studies on all projects being considered for nonconcessional foreign financing, and provide to the Fund a semi-annual listing of projects and progress report on the stock of external arrears (all SBs, ongoing). We will also refrain from financing large development projects through any state-owned special purpose vehicle (SPV) until we have developed additional capacity to fully evaluate such schemes; and will limit the fiscal risks from concessions.

23. **Strengthened debt management capacity is key to proper evaluation and management of the risks of commercial external borrowing.** A new debt strategy is now in place and the debt management Directorate has been reorganized. We will push forward with developing capacity and improving coordination with the medium-term budget. After raising a syndicated commercial loan from a foreign bank, we are considering issuing Albania's first benchmark Eurobond in international capital markets in 2009. We are seeking technical assistance from donors and IMF to ensure that we are adequately prepared to undertake such an operation.

24. **We will further strengthen our liberal trade regime.** The Interim Agreement for Free Trade with the EU and the Central Europe Free Trade Agreement (CEFTA) are promoting the development of regional trade. The free trade agreement with Turkey was ratified by the Albanian parliament and came into force in May 2008. The weighted average tariff rate is expected to decline further to 2.4 percent in 2008.

25. **We continue to make progress on clearing or rescheduling our external arrears.** Outstanding official external arrears have been reconciled with North Korea, Russia, the Bank of Greece, and a consortium of Greek Banks, and are in the process of being reconciled for Vietnam, Algeria and Cuba. We have contacted countries that were part of the former Yugoslavia (Serbia, Montenegro, FYR Macedonia, Croatia, Bosnia and Herzegovina, and Slovenia) to negotiate terms. We reached agreement with private Swiss companies and two Greek companies to clear arrears in 2008. We are in the process of reconciling outstanding arrears with companies in Austria, Belgium, the U.K., the Netherlands, Sweden India and Denmark. We are working to clear all outstanding external arrears by end 2008 and will not accumulate new external payments arrears. We will continue to provide semi-annual reports

to the Fund on the outstanding stock of external arrears within one month of the end of each quarter (SB; ongoing). Once all arrears have been cleared or reschedule we will begin discussions with the Fund with a view to accepting Article VIII.

## F. Other Structural Reforms

26. **We are stepping up efforts to implement reforms that are key to improve our business and investment climate.** The National Registration Center (NRC)—a one stop-shop for business registration—has prompted the registration of many more businesses by cutting the legal timeline for registration to only one day and the registration cost to 100 lek. Following this success, we are working to ease the burden of licensing and permits. To support the development of SMEs, we are implementing an action plan prepared based on the approved Strategic Program for 2007–2009. We already made the Competitiveness Fund and Export Guarantee Fund fully operational and effective, and rely more on the increased capacities of Albinvest. We are also taking measures to improve the commercial court system and are pursuing land registration and titling in order to enhance contract enforcement and property rights and ensure long-term sustainable development. To address the regulatory and infrastructure bottlenecks more quickly, we are considering proposals on establishing industrial parks. However, given already low statutory tax rates, we do not envisage any tax incentives for these parks.

27. **Privatization of remaining strategic public assets will continue in 2008.** In June 2008, we approved the sale of 85 percent of the oil refinery ARMO to a US-Swiss consortium which submitted the highest bid for €125 million. Given significant interest shown by foreign insurance companies in Albania, we expect to be able to sell INSIG this year. In addition to the distribution arm of KESH, we will also intensify our efforts to divest the assets of Albpetrol and our minority stake in AMC.

28. **We continue to improve statistics.** Improving the reliability, timeliness and frequency of national accounts statistics remain a top priority. The findings of the household-budget and labor-force surveys—both conducted in 2007—were published in May 2008. We are utilizing these surveys to enhance coverage and reliability of national accounts and short-term statistics. In addition, we will strengthen the collaboration between INSTAT, the BoA and the MoF to improve the quality of economic statistics. We appreciate the extensive technical assistance from the IMF in this area. With IMF assistance, we expect to soon publish our first quarterly national accounts—a key requirement for SDDS. Afterward, we plan to move towards SDDS status. We will ensure that INSTAT has sufficient resources to carry out its mandate.

## G. Program Monitoring

29. The seventh disbursement and purchase under the PRGF/EFF-supported program will be based on the end-September, 2008 quantitative performance criteria (Table 1 and the TMU); and completion of the sixth review and financing assurances review. The sixth review under the PRGF and EFF arrangements is expected to be completed no later than February 1, 2009. 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.

Table 1. Albania: Quantitative Performance Criteria and Indicative Targets, March 2008–December 2008 1/

	End-March		End-June		End-September		End-December	
	Actual	Prog. (Adj.)	Actual	Prog.	Prog. (Adj.)	Prog.	2008	Prog.
	(In billions of lek)							
Ceiling on net domestic credit to the government 2/	5.1	6.3	23.5	12.6	...	...	14.3	19.0
Ceiling on accumulation of net domestic assets of the BOA 3/	-12.2	1.7	1.7	10.1	...	...	18.8	13.0
Indicative total tax revenue target 4/	71.7	51.1	51.1	108.6	...	...	185.8	261.7
	(In millions of US dollars for March-June; in millions of Euros for September to December)							
Floor on accumulation of net international reserves of the BOA 3/	-29.2	-58.6	-58.6	-25.2	...	...	15.8	57.4
	(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	272.0	515.0	515.0	515.0	515.0	515.0	650.0	680.0
Ceiling on public and publicly-guaranteed external debt with original maturities up to and including 1 year 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Ceiling on accumulation of new external payments arrears, excluding interest on pre-existing arrears 5/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Calculated from data provided by the Albanian authorities.

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-March 2008 except where marked. Data for end-March 2008 are performance criteria except where marked. Data for end-September 2008 are proposed performance criteria, except where marked. Data for end-June 2008 and end-December 2008 are indicative targets.

2/ Cumulative change within the calendar year.

3/ For end-March 2008 and end-June 2008, cumulative change from end-December 2007.

4/ 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. From September 2007 includes small business tax. Targets defined as cumulative changes within each calendar year.

5/ Applies on a continuous basis.

Table 2. Structural Benchmarks under the PRGF and EFF Arrangements

	Proposed Test Date
<p><b>I. Prior Actions</b></p> <p>1. <i>The Council of Ministers to adopt measures sufficient to reduce the quasi-fiscal losses of KESH to no more than 1.2 percent of GDP in 2008, including by containing personnel costs, limiting electricity imports, and reprioritizing investments.</i></p>	...
<p><b>II. Structural Benchmarks</b></p> <p><b>A. Reduce fiscal vulnerabilities</b></p> <p>2. <i>Raise the effective collection rate on electricity consumption to 62 percent.</i></p> <p>3. 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).</p> <p>4. 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</p> <p>5. Prepare semi-annual reports (within one month of the end of each semester) on the stock of external arrears.</p> <p>6. Increase the number of taxpayers paying social security contributions (excluding agricultural workers and voluntary contributors) to 410,000.</p> <p><b>B. Improve public expenditure management</b></p> <p>7. Safeguard the efficient use of nonconcessional foreign project loans:</p> <p>(i) Conduct an independent feasibility study for any large project (as defined in the TMU) financed through non-concessional commercial borrowing;</p> <p>(ii) Provide a semestrial listing and status report on all projects being considered for nonconcessional foreign financing.</p> <p><b>C. Strengthen the financial system</b></p> <p>8. Complete the delivery vs. payments system for government securities.</p>	<p><i>End-October 2008</i></p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>End-July 2008</p> <p>Ongoing</p> <p>Ongoing</p> <p>End-October 2008</p>

1/ Text in italics refers to new conditionality not carried over from the fourth review under the program.

## TECHNICAL MEMORANDUM OF UNDERSTANDING

This memorandum defines the quantitative performance criteria, benchmarks and indicative targets established in the Memorandum of Economic and Financial Policies (MEFP) up until end-December 2008; and associated reporting requirements.

### A. Net Domestic Credit to the Government

1. For the purposes of the program, the **government** includes the State Budget, the Social Security Institute (SSI), the Health Insurance Institute (HII), the Expropriation Fund, local governments, and the accounts of all entities (including special purpose vehicles) that are used to operate or manage public-private partnership (PPP) projects.
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;<sup>1</sup> 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; (c) negative balances in government deposits with BoA, DMBs and SLIs; (d) any securities or debt instrument of any kind issued by government (as defined above) to the Bank of Albania to compensate the Bank of Albania for its net valuation losses on its assets and liabilities in, or denominated in, gold, special drawing rights or foreign currencies, and which the Bank of Albania keeps in its (off-balance sheet) Valuation Reserve Securities Account of the Bank of Albania, as required in Article 64 of the Law on the Bank of Albania (No. 8269, dated December 12, 1997)<sup>2</sup>; and (e) any other form of financial obligation of the government to domestic lenders, the issuance of which resulted in borrowing funds by the government or a payment for an existing payment obligation of the government.
  - (ii) Gross domestic credit in lek and in foreign currency extended to the government excludes (i) advances on profit transfers by the BoA; and (ii) the

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<sup>1</sup> Other domestic lenders comprise firms, nonbank institutions, and households, or any other resident legal or natural person, or institution.

<sup>2</sup> This was equivalent to lek 15.505 billion at end-December 2007.

lek 5,908 million temporary security issued by government to BoA on December 31, 2007 and retired on February 27, 2008<sup>3</sup>.

- (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 plus accrued interest. 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 including accrued interest. The stock of gross domestic credit extended to the government and held by the DMBs in the form of variable and fixed income securities (excluding treasury bills) will be valued at issue price plus accrued interest. 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<sup>4</sup>.
  - (iv) For the purposes of program monitoring, gross domestic credit to the government in foreign currency will be converted from lek to euros at the end-of-period lek/euro exchange rate prevailing on the test date; and then converted to lek at the program exchange rate of lek 123.6/euro.
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 (€596.2 per ounce)<sup>5</sup>.
  - (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.

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<sup>3</sup> This security was issued to provide bridge recapitalization of BoA until a transfer of gold from government to BoA was finalized on February 27, 2008.

<sup>4</sup> Under current reporting standards, the stock of all gross domestic credit extended to the government and held by the SLIs and other domestic lenders is only available at face value.

<sup>5</sup> The lek value of standard gold deposits will be (a) converted to euros using the current end-of-period lek/euro exchange rate; (b) then converted to ounces of gold using the current euro market price of gold; (c) then converted to euros at the program price of gold (€596.2 per ounce); and (d) then converted to lek at the program lek/euro exchange rate of lek 123.6/euro.



- (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 DMBs 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, foreign currency-denominated government financial assets will be converted from their lek value (obtained from the BoA and aggregate DMBs' balance sheet) to their currency of denomination at the end-of period lek exchange rate for that currency prevailing on the test date; and then converted to lek at the lek exchange rate for that currency prevailing at end-March 2008. Those foreign currency-denominated government financial assets for which the currency of denomination is unknown, will be converted from their lek value (obtained from the BoA and aggregate DMB's balance sheet) to euros at the end-of period lek/euro exchange rate for that currency prevailing on the test date; and then converted to lek at the lek/euro program exchange rate of lek 123.6/euro.

6. Under these definitions, the stock of net domestic credit to the government was lek 361.3 billion at end-December 2007. The breakdown of the categories of net domestic credit to the government as defined above is given in Attachment Table 1.

7. The limits on the change in net domestic credit to the government will be cumulative within each calendar year.

## **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-March 2008. Under this definition, the level of NDA was lek 74.4 billion as of end-March 2008. The NDA limits will be cumulative changes from end-March 2008 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. 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. The government's foreign currency deposits at the Bank of Albania are excluded from reserve liabilities<sup>6</sup>, with the following exception: those government deposits that arise from the proceeds of the foreign currency-denominated syndicated loan contracted to finance part of the Rreshen-Kalimash road will be included in reserve liabilities. Reserve assets and reserve liabilities will both be expressed in euros. The NIR limits will be cumulative changes from end-March 2008, and will be monitored from data supplied by the Bank of Albania.

10. During this program, for monitoring purposes, the bilateral exchange rates between the euro and non-dollar currencies will be kept at their end-March 2008 levels and holdings of monetary gold will be valued at €596.2 per ounce. Under this definition, the level of NIR was €1,126.5 million at end-March 2008.

#### **D. Adjusters for NCG, NDA, and NIR**

11. The NCG and NDA ceilings and the NIR floor are defined on the assumption that cumulative privatization proceeds from January 1, 2008 will be as follows:

End-Sept 2008    lek 4,100 mn. (Of which €26.0 mn. in foreign currency);

End-Dec 2008    lek 4,100 mn. (Of which €26.0 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<sup>7</sup>.

12. The ceiling on NCG:

- Will be adjusted upward (downward) by the increase (decrease) in debt instruments of any kind (valued at issue price if possible) that the government (as defined above)

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<sup>6</sup> 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.

<sup>7</sup> For the NCG adjuster, the lek equivalent of deviations from the programmed amounts received in foreign currency will be converted to lek at the exchange rates prevailing on the value date of the transaction.

transfers to the Bank of Albania to compensate the Bank of Albania for its net valuation losses on its assets and liabilities in, or denominated in, gold, special drawing rights or foreign currencies, and which the Bank of Albania keeps in its (off-balance sheet) Valuation Reserve Securities Account of the Bank of Albania, as required in Article 64 of the Law on the Bank of Albania (No. 8269, dated December 12, 1997).

- Will be adjusted upward by the increase in debt instruments of any kind (valued at issue price if possible) that the government (as defined above) transfers to the Bank of Albania to for the purpose of recapitalizing the Bank of Albania. The transfer of securities to the Bank of Albania will be deemed to be for recapitalization purposes to the extent that the offsetting entry in the Bank of Albania's balance sheet is recorded in the bank's capital account. This adjuster excludes the security referred to in paragraph 3 (ii) (ii).
- Will be adjusted upward by the running down of government financial assets (as defined in paragraph 4) for the purpose of recapitalizing the BoA. As at end-March 2008, the amount of financial government assets (as defined in paragraph 4) expended for this purpose was Lek 2,844 million.
- Will be adjusted upward by the amount of fiscal expenditure that was authorized by the 2007 budget, but legally expended in the first 14 days of 2008 and legally credited to the 2007 fiscal year.
- Will be adjusted downward by the amount of fiscal expenditure that was authorized by the 2008 budget, but legally expended in the first 14 days of 2009 and legally credited to the 2008 fiscal year.
- Will be adjusted upwards by the disbursed amount of the foreign currency-denominated syndicated loan contracted to finance part of the Rreshen-Kalimash road that is sourced through resident banks or other resident lenders. There will be no adjustment to the NCG target for this purpose for disbursements of this loan that are sourced through nonresident lenders.

13. 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, loans from the International Development

Association of the World Bank Group, and macro-financial assistance from the EU) will amount, on a cumulative basis, from January 1, 2008, to:

End-Sept 2008	€0.0 mn;
End-Dec 2008	€0.0 mn.

The ceilings on NDA of the Bank of Albania and NCG will be adjusted downward, and the floor on NIR will be adjusted upward by the amount total foreign loan financing (excluding IMF financing, project and commodity loans, loans from the International Development Association of the World Bank Group, and macro-financial assistance from the EU) exceeds these projections.<sup>8</sup>

14. The NDA ceilings will also be adjusted to reflect the impact of any change in the required reserve ratio of commercial banks with the Bank of Albania. Should reserve requirements in lek (foreign currency) be changed from the 10 percent on all deposits held in lek (foreign currency), then the NDA ceiling will be adjusted by multiplying the change in the reserve requirement by the programmed deposits for which required reserves are held in lek (foreign currency). The total adjustment to the NDA ceiling will be the sum of the adjustment made for any change in the reserve requirement on lek deposits and the adjustment made for any change in the reserve requirement on foreign currency deposits. Before making any change to the required reserve ratio, the authorities will consult with IMF staff. For the purpose of this adjuster, the programmed level of deposits in lek and foreign currency are defined as follows:

	<u>In lek (lek bn.)</u>	<u>In foreign currency (lek bn.)</u>
End-September 2008	372.9	289.1
End-December 2008	380.6	308.1

#### **E. External Debt and Arrears**

15. 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

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<sup>8</sup> For the NCG adjuster, the lek equivalent of deviations from the programmed amounts received in foreign currency will be converted to lek at the exchange rates prevailing on the value date of the transaction.

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.

16. 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 15 of this memorandum, but also to commitments contracted or guaranteed for which value has not been received<sup>9</sup>. 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.

17. The limit on medium- and long-term external debt as defined in paragraph 16 will be adjusted downwards by the disbursed amount of the foreign currency-denominated syndicated loan contracted to finance part of the Rreshen-Kalimash road that is sourced through resident banks or other resident lenders. There will be no adjustment to the limit on medium- and long-term external debt for this purpose for disbursements of this loan that are sourced through nonresident lenders.

18. 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 15 of this memorandum. Excluded from the limit are rescheduling operations (including the deferral of interest on commercial debt) and normal import-related credits.

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<sup>9</sup> For the purposes of program monitoring, "external" means owed to a non-resident, and includes both foreign currency- and local currency-denominated debt (where debt is defined in paragraph 15 of this memorandum).

Debt falling within the limit shall be valued in euros at the exchange rate prevailing at the time the contract or guarantee becomes effective.

19. 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 March 31, 2008 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 March 31, 2007; and (ii) external arrears that are subject to debt rescheduling agreements or negotiations.

20. **Large projects** (as referred to in MEFP paragraph 5 and MEFP Table 2) are defined as those projects involving total nonconcessional borrowing in excess of €20 million.

#### **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.

#### **G. Monitoring and Reporting Requirements**

22. 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;
- (xii) Detailed information on the stock and flow of any securities or debt instrument of any kind issued by government (as defined above) to the Bank of Albania to compensate the Bank of Albania for its net valuation losses on its assets and liabilities in, or denominated in, gold, special drawing rights or foreign currencies, and which the Bank of Albania keeps in its (off-balance sheet) Valuation Reserve Securities Account of the Bank of Albania, as required in Article 64 of the Law on the Bank of Albania (No. 8269, dated December 12, 1997).
- (xiii) Monthly information regarding the balances held by the Expropriation Fund at BoA disaggregated into foreign currency and domestic currency.
- (xiv) Monthly data regarding the currency composition of government deposits at BoA and the aggregated deposit money banks, disaggregated by transferable and other deposits.

**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 quarter will be supplied within one month of the end of the quarter.
- (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.
- (xii) Monthly information regarding the balances held by the Expropriation Fund at deposit money banks and SLAs disaggregated into foreign currency and domestic currency.
- (xiii) The amount—and detailed breakdown—of fiscal expenditure that was authorized by the 2008 budget, but legally expended in the first 14 days of 2009 and legally credited to the 2008 fiscal year; and the amount—and detailed breakdown—of fiscal expenditure that was authorized by the 2007 budget, but legally expended in the first 14 days of 2008 and legally credited to the 2007 fiscal year.

**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.
- (iii) Quarterly reports on the progress made in the actual use of the ASYCUDA risk-assessment module to perform custom inspections.

**The General Directorate of Taxation will supply to the Fund:**

- (i) Detailed monthly data on tax revenues collected.
- (ii) Detailed monthly data on the share of taxes collected by the Large Taxpayer Office (LTO).

**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.

**The Albanian Electricity Corporation KESH will supply to the Fund:**

- (i) Detailed monthly data on production, imports, and consumption of electricity.
- (ii) Detailed monthly data on losses and collection rates.

Table 1. Albania: Calculation of Net Domestic Credit to Central Government for Program Monitoring Purposes, December 2007–December 2008  
(In millions of lek)

	Dec-07	Mar-08	Jun-08	Sep-08	Dec-08
<b>1. Treasury bills held outside central government</b>	239,826				
<b>Of which:</b>					
1. (i) Held by Bank of Albania 1/	66,956				
1. (ii) Held by deposit money banks 1/	131,810				
1. (ii) (i) In domestic currency	131,810				
1. (ii) (ii) In foreign currency at program exchange rates	0				
1. (ii) (ii) (i) In foreign currency at current exchange rates	0				
1. (iii) Held by savings and loan institutions 2/	0				
1. (iv) Held by other domestic lenders (excluding holdings of HHI and SSI) 2/	41,060				
1. (iv) (i) Of which:					
1. (iv) (i) (i) INSIG	1,581				
1. (iv) (i) (ii) Individuals and firms	39,479				
1. (iv) (i) (i) (ii) Of which: BoA window	23,756				
<b>Plus:</b>					
<b>2. Other central government debt held outside central government (millions of lek)</b>	138,425				
<b>Of which:</b>					
2. (i) Held by Bank of Albania 3/	15,505				
2. (i) (i) Other securities	15,505				
2. (i) (i) (i) Of which: for BoA valuation losses	15,505				
2. (i) (i) (ii) Short-term direct loans to government 3/	0				
2. (ii) Held by deposit money banks 4/	122,920				
2. (ii) (i) Fixed income securities 4/	122,920				
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				
<b>Equals gross domestic credit to government:</b>	378,251				
<b>Less:</b>					
<b>3. Assets of central government (excluding HHI and SSI)</b>	11,311				
3. (i) Deposits held at Bank of Albania 6/	13,398				
3. (i) (i) In domestic currency	7,435				
3. (i) (i) (i) Transferable deposits in lek	4,541				
3. (i) (i) (ii) Term deposits of government and deposits in lek for projects	465				
3. (i) (i) (iii) Domestic currency portion of Expropriation Fund	2,429				
3. (i) (ii) In foreign currency at program exchange rates and program price of gold 7/ 8/	5,963				
3. (i) (ii) (i) In foreign currency evaluated at current exchange rates	5,755				
3. (i) (ii) (i) (i) Transferable deposits in foreign currency evaluated at program exchange rate 7/ 9/	3,223				
3. (i) (ii) (i) (i) (i) Transferable and other deposits in foreign currency evaluated at current exchange rate 9/	3,172				
3. (i) (ii) (i) (i) (ii) Of which: Foreign currency portion of Expropriation Fund at current exchange rates	0				
3. (i) (ii) (i) (ii) Standard gold deposits of government evaluated at program exchange rate and gold price (Lek mns.)	2,740				
3. (i) (ii) (i) (ii) (i) Standard gold deposits of government at current exchange rate and gold price (Lek mns.) 8/	2,584				
3. (ii) Assets held at deposit money banks	-2,088				
3. (ii) (i) Deposits 10/	1,695				
3. (ii) (i) (i) Deposits in domestic currency	165				
3. (ii) (i) (i) (i) Transferable deposits in domestic currency	165				
3. (ii) (i) (i) (ii) Other deposits in domestic currency	0				
3. (ii) (i) (ii) Deposits in foreign currency evaluated at program exchange rates	1,529				
3. (ii) (i) (ii) (i) In foreign currency evaluated at current exchange rates 7/	1,504				
3. (ii) (i) (ii) (i) (i) Transferable deposits in foreign currency evaluated at current exchange rates	1,504				
3. (ii) (i) (ii) (i) (ii) Other deposits in foreign currency evaluated at current exchange rates	0				
3. (ii) (ii) DMB payables to government	-3,911				
3. (ii) (iii) Ministry of finance short-term lending to commercial banks	129				
3. (iii) Held at savings and loan institutions 10/	0				
<b>Less:</b>					
<b>4. Deposits of HHI and SSI</b>	5,675				
<b>Equals:</b>					
<b>5. Stock of Net domestic credit to central government (1+2-3-4)</b>	361,265				
5. (i) Change since December 2007	...				
<b>6. Memorandum items:</b>					
6. (i) Current exchange rate (Lek/Euro, eop)	121.6				
6. (ii) Current exchange rate (Lek/US dollar, eop)	82.7				
6. (vii) Current exchange rate (US dollar per Euro, eop)	1.458				
6. (iii) Program exchange rate (Lek/Euro, eop)	123.6				
6. (iv) Program exchange rate (US\$/Euro, eop)	1.552				
6. (v) Program price of gold (Euros per ounce)	596.2				
6. (vi) Program price of gold (US dollars per ounce)	925.5				
6. (vii) Market price of gold (price in Euros per ounce)	571.5				

1/ Evaluated at issue price plus accrued interest. Excludes Lek 5,908 million of securities issued to temporarily recapitalize BoA in advance of gold transfers that was issued on December 31, 2008 and retired on February 27, 2008.

2/ Evaluated at face value (data on treasury bill holdings of SLAs and other domestic lenders are currently available only at face value).

3/ Includes accrued interest.

4/ Valued at issue price plus accrued interest.

5/ Evaluated at face value.

6/ Includes transferable deposits of government in domestic and foreign currency, lek deposits of central government for projects; deposits of the Expropriation Fund; and standard gold deposits of government (footnote # 8). Excludes non-standard gold deposits; excludes all nongold precious metal deposits of government; and excludes government deposits in foreign currency for projects.

7/ Value determined using methodology outlined in the TMU.

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 Euro using the current end-of-period lek/Euro exchange rate; (b) then converted to ounces of gold using the current market price of gold; then (c) converted to Euro at the program price of gold of Euro 596.2 per ounce; and then (d) converted to lek at the program Lek/Euro exchange rate of Lek 123.6/Euro.

9/ Including account set up to hold privatization revenue.

10/ Includes all deposits of central government in SLIs.