Albania: Letter of Intent

January 8, 2009

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.

Albania: Letter of Intent

Tirana, January 8, 2009

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Mr. Strauss-Kahn:

The current Fund-supported program, approved in January 2006, is coming to a close. During the three years of the program, Albania has maintained macroeconomic stability, improved its debt sustainability outlook, and made substantial progress with structural reforms. In 2008, inflation remained low, and growth buoyant at about 6 percent. The budget deficit was about 5.2 percent of GDP, in line with the program target. Our monetary policy stance is at an appropriate level, and the banking system remains solvent, liquid, and profitable.

Our policies in 2009 will be guided by the goal to preserve macroeconomic stability, sustain growth and advance our structural policies agenda. We expect some deterioration in the external environment with export demand and remittances declining, and external financing tightening.

Given the current challenging environment, our principal goal this year is to strengthen economic fundamentals and further reduce vulnerabilities. We therefore remain committed to a prudent fiscal policy: the 2009 budget foresees a deficit of 4.2 percent of GDP, which—given the usual mobilization delays for foreign-financed projects—is expected to keep the end–year deficit below 4 percent of GDP. We are postponing planned reductions of social security contribution rates to May 1 and will adjust wholesale electricity tariffs to cost-recovery levels; as a first step, we have asked the energy regulator to calculate the required level. Moreover, we are increasing the contingencies in the 2009 budget to some 2 percent of GDP to offset any revenue shortfalls or other developments that would threaten budget targets. The lower budget deficit, combined with expected privatization proceeds, will contain net domestic borrowing within acceptable bounds and minimize crowding out of private investment.

We are committed to the floating exchange rate regime. Monetary policy will continue to be guided by our inflation targeting framework and we will work to further improve its legal and institutional framework. With respect to the financial sector, we will remain vigilant and enhance our already considerably improved capacity for high-frequency monitoring of financial conditions, and further strengthen our supervisory and regulatory regimes.

All quantitative performance criteria and structural benchmarks set under the program for the sixth review have been observed with the exception of the end–October benchmark for the effective collection rate on electricity consumption. Whereas substantial progress was made in raising the effective collection rate, the target of 62 percent at end of October was missed by 2 percentage points—if arrears by the budgetary institutions and public water companies that have now been cleared are excluded from the calculation. The company is expected to have achieved the end–year effective collection target.

We are progressing towards the privatization of the electricity distribution company and are committed to ensure complete cost recovery tariffs for KESH. We are aiming to conclude a final contract for a 76 percent share in the distribution company OSSH. We expect the private distributor to enhance efficiency and raise effective collection rate to 82 percent by 2014. The privatization process for public insurance company INSIG is also by now quite advanced. Half of the proceeds from these privatizations will be used to reduce public debt and the other half expended on priority road projects.

On this basis, we request completion of the financing assurances review, and completion of both the sixth review under the three–year PRGF arrangement and the sixth review under the three–year EFF arrangement. We also request the seventh disbursement under these arrangements in an aggregate amount of SDR 2.435 million.

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 on economic and financial policies, at the initiative of the government or the Bank of Albania, or if the Managing Director of the IMF request 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, 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