International Monetary Fund

Albania and the IMF

Press Release:
Press Release: IMF Executive Board Completes Fifth and Sixth Reviews of the Extended Fund Facility Arrangement for Albania

February 17, 2016

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

January 22, 2016

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

January 22, 2016

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Ms. Lagarde:

1. The Extended Arrangement approved by the Executive Board of the International Monetary Fund (IMF) in February 2014 remains the anchor of our economic policies. The attached Memorandum of Economic and Financial policies (MEFP) reviews progress in implementing the program and outlines the policies that the government and the Bank of Albania (BoA) will pursue over the next twelve months.

2. Performance under the program has been strong. All end-April, end-August, available end-December, and continuous performance criteria were met, as were most indicative targets. The indicative targets on subsidies to the energy sector (for the end-April test date) and the accumulation of new arrears (for the end-April and end-August test dates) were missed by small margins. The government is implementing remedial measures and most of the newly accumulated arrears will be settled by early 2016. The inflation rate for the end-August test date was slightly below the inner band prescribed under the Inflation Consultation Clause. The BoA and Fund staff expect inflation to converge to the medium-term target and agree that the policy of gradual monetary easing and forward guidance is appropriate. We are currently awaiting data to assess two end-December performance criteria (a waiver of applicability is being requested for the ceilings on general government overall cash deficit and expenditure, and we expect them to be met, based on available data).

3. Most structural benchmarks were implemented, though one was implemented partially, two were implemented with delays, and two more were delayed. The re-prioritization of all outstanding infrastructure projects was delayed in order to align it to the 2016 budget. This has been now implemented as a prior action. The need to amend a law and related regulations delayed the launch of risk-based audits of tax refunds to September. We propose rescheduling the roll-out of AGFIS to 15 budget institutions to March 2016, due to procurement delays with the server upgrade, which have now been resolved. We also propose rescheduling the amendments to the Budget Law to incorporate multi-year commitment limits to early 2016. Finally, we propose rescheduling the removal of 35kV medium-voltage consumers from the regulated tariff system to mid-2016, due to delays in related legislation.

4. Our policy priorities over the next twelve months will focus on pursuing fiscal consolidation, safeguarding financial sector stability, reviving credit growth, and implementing growth-enhancing reforms. In particular, we will persist with ambitious reforms in the electricity sector and in public financial management.

5. Implementation of our program will be monitored by the Fund through reviews, quantitative performance criteria, indicative targets, and structural benchmarks, as described in the attached MEFP and Technical Memorandum of Understanding (TMU). While we are confident that the policies described in the MEFP are adequate to achieve program objectives, we stand ready to take additional measures that may be required for this purpose. We will consult with the Fund on the adoption of such measures, as well as in advance of any revisions to the policies contained in this letter and the MEFP. The government of Albania will provide the IMF with such information as it may request to monitor progress in economic and financial policy implementation.

6. In view of the strong program performance to date and the strength of policy commitments for the period ahead, we request that the Executive Board of the IMF complete the fifth and sixth reviews under the Extended Arrangement. We further request the purchase of SDR 57.76 million. We request a waiver of applicability for the two end-December performance criteria on general government overall cash deficit and expenditure, given the unavailability of data for assessing these. Finally, we request the modification of performance criteria, as described in Table 1 of the MEFP and in the TMU.

7. We wish to make this letter available to the public, along with the attached MEFP and TMU, as well as the IMF staff report on the fifth and sixth reviews under the Extended Fund Facility. We therefore authorize their publication and posting on the IMF website, subject to Executive Board approval. These documents will also be posted on the official websites of the Albanian government.

Sincerely,

/s/	/s/	/s/
Shkelqim Cani	Gent Sejko	Arben Ahmetaj
Minister of Finance	Governor, Bank of Albania	Minister of Economic Development

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

Attachment I. Memorandum of Economic and Financial Policies

1. This Memorandum lays out the Government of Albania's policy priorities for the period ahead, supported by the IMF's Extended Fund Facility. Our policies seek to generate higher living standards and better employment opportunities for Albanians. Achieving these goals will require sustained efforts to reduce debt-related vulnerabilities, revive credit growth, and unlock structural constraints to medium-term growth.

Recent Economic Developments

2. Economic growth is projected to have picked up in 2015, despite significant headwinds earlier in the year. Weak demand in the Eurozone as well as low international commodity prices reduced export growth, while economic uncertainties arising from the Greek crisis also weighed on domestic demand. The resulting broad-based weakness in manufacturing and services was, however, offset by strong hydropower generation. Real GDP is expected to have grown at the same pace in the second half of the year, reaching 2½–2¾ percent in 2015, supported by continued arrears clearance, higher tourism receipts, and stronger private investment. The current account deficit is expected to have narrowed to around 11½ percent of GDP, given improvements in tourism receipts and higher net electricity exports.

3. Domestic slack and declining international commodity prices have resulted in low headline inflation. CPI inflation accelerated to 2.2 percent in September 2015, up from 1.5 percent a year ago, due mostly to one-off supply shocks, such as increases in food prices. Nevertheless, core inflation continues to hover around zero. Given the disinflationary pressures from imported inflation and the weak domestic demand, inflation is projected to have reached 1.9 percent at end-2015.

Outlook

4. Economic recovery is expected to strengthen next year driven by rising domestic demand. GDP growth is projected to increase to 3.4 percent in 2016, benefiting from improved confidence, continued low interest rates, higher FDI inflows, and a gradual recovery in bank lending. These effects are expected to offset the fiscal drag from the reduction in arrears clearance. Average inflation is projected to rise gradually to 2.3 percent in 2016 on the strength of rising domestic demand, an accommodative monetary policy stance, and a pickup in euro area inflation, but is nevertheless likely to remain below the BoA's target of 3 percent for some time.

5. External imbalances are likely to remain elevated throughout 2016–17. The current account deficit is projected to widen to around 13 percent of GDP next year. Imports are projected to remain high on the back of large infrastructure projects (such as the Trans Adriatic Pipeline and the Statkraft/Devoll hydropower plant), while low commodity prices are expected to continue weighing down on exports. After several years of decline, remittances have picked up, but are expected to remain below their pre-crisis peak, given economic uncertainties in the main source countries. The current account will continue to be financed largely by FDI. Over the medium term, the current account deficit is expected to narrow somewhat because of improvements in export capacity (particularly in agriculture), expenditure switching from imports to domestically produced goods, and falling import needs of the major FDI projects. Gross official reserves are expected to cover above 4½ months of imports of goods and services in 2016-17.

Program Implementation

6. All April, August, available end-December, and continuous performance criteria were met, as were most indicative targets (Table 1). The ceilings on the government's cash deficit and expenditure were met due to expenditure under-execution as well as one-off non-tax revenues, both of which offset broad-based weakness in tax revenues. The April ceiling on energy subsidies was missed by a very small margin (0.02 percent of GDP). However, the August ceiling was met and the end-2015 target is expected to have been met as well. The zero ceiling on the accumulation of central government domestic arrears was also not met. Results from the triannual survey of ten key ministries and the General Directorate of Taxation (GDT) show an accumulation of 1.1 billion lek of new arrears at both end-April and end-August 2015 (0.08 percent of GDP). The bulk of new arrears was due to road construction projects, court decisions, and VAT refunds. All accumulated arrears will be repaid by early 2016, except for those on court decisions, which will be settled in accordance with a special Council of Ministers decision. As a remedial measure, we are working on streamlining public investment management and introducing commitment limits to prevent the recurrence of new arrears. The recent implementation of risk-based auditing of tax refunds by the GDT will also help. Finally, the lower inner inflation band under the Inflation Consultation Clause was missed because of external disinflationary pressures and the persisting output gap. After consulting with Fund staff, we have maintained our easing bias and lowered our policy rate by 25 basis points on November 4.

7. Most structural benchmarks were implemented, although one was implemented partially, two were implemented with delays, and two more were delayed (Table 3a):

- In the area of public financial management, the regular reports on arrears paid and on the accumulation of new arrears were published on time. The re-prioritization of all outstanding infrastructure projects was delayed in order to align it to the 2016 budget. We propose rescheduling the roll-out of AGFIS to 15 budget institutions to March 2016, due to procurement delays with the server upgrade, which have now been resolved. The Financial Management and Control Law has been amended to incorporate multi-year commitment limits. No changes were deemed necessary for the Procurement Law; instead MoF issued an instruction. We propose rescheduling the amendments to the Budget Law to early 2016.

- In the area of tax administration, risk-based auditing of tax refunds was delayed to September by the need to amend the VAT Law and related regulations.

- In the area of financial sector and central bank governance, the BoA submitted the audits of the end-September and end-December 2014 program data, while the Albanian Financial Supervisory Authority (AFSA) amended its regulatory framework on asset valuation and liquidity requirements for investment funds.

- Finally, we prepared the regular quarterly survey of the consolidated arrears of state-owned enterprises in the electricity sector to the private sector. We propose rescheduling the removal of 35kV electricity consumers from the regulated tariff system to mid-2016, due to delays in related legislation.

Economic Policies for 2015–16

A. Fiscal Policy

8. We commit to continuing with fiscal consolidation in order to reduce debt-related vulnerabilities which hamper growth and cause macroeconomic instability. We intend to pursue a steady pace of fiscal consolidation based on a sound strategy of broadening the tax base and strengthening tax administration and compliance, with the goal of lowering the public debt-to-GDP ratio to below 60 percent by 2019, from around 72 percent at end-2014. This path will be consistent with undertaking measures of at least 1 percent of GDP annually. As a measure of fiscal effort, we will begin using the primary fiscal balance and primary expenditure as our operational targets.

9. In 2015, despite significant underperformance in revenues, we remain committed to achieving our fiscal deficit target of 4.9 percent of GDP. The shortfalls in revenues reflected forecasting issues in the 2015 budget; macroeconomic factors such as lower than expected GDP growth, interest rates, and oil prices; and behavioral responses to tax increases that took effect in January 2015. We have addressed the resulting financing gap by using the savings from our over-performance on the electricity sector reform, as well as savings in personnel costs, social insurance outlays, and the interest bill.

10. We are committed to undertaking further fiscal adjustment in 2016. We will target a primary surplus of 0.3 percent of GDP, a 0.8 percent improvement over the 2015 primary deficit (excluding arrears clearance). On the expenditure side, we will generate savings on the public sector wage bill and budget support to the electricity sector. On the revenue side, specific measures include:

- tightening the tax regime for processing industries and bio-fuels;
- broadening the tax base for the existing property tax and for social contributions by the self-employed, while reducing the tax burden for small businesses;
- introducing a registration fee and an annual circulation tax on luxury cars;
- improving the design of current taxes (for example, specific taxes will replace *ad valorem* ones on non-metallic minerals and hotel stays); and
- as part of our fiscal decentralization strategy, increasing local taxes and giving more rate-setting discretion to local governments.

11. To address the problems of revenue underperformance, we have undertaken several additional reform measures:

- **In early September 2015, we launched a large-scale reform effort against tax evasion, non-compliance, and informality**. It focuses on companies that are unregistered, understate their payrolls, do not use cash registers, or do not issue receipts. Our reform effort has already yielded a large increase in the number of registered small businesses and employees. We have been prudent in projecting the revenue gains from our reform effort in the 2016 budget— although we expect them to be higher, they are limited to 4 billion lek (0.3 percent of GDP), from social contributions by newly registered workers. We have decided to freeze 4 billion lek in capital expenditure and make it contingent on additional revenues from our reform effort. In addition, we will tackle informal markets for cell phones and cigarettes.

- **We are urgently addressing recently identified weaknesses in revenue forecasting and monitoring.** A steering committee led by the Office of the Prime Minister and involving representatives from the IMF and the World Bank has started meeting weekly to address the causes of recent revenue underperformance. It is also enhancing the coordination among the Ministry of Finance (MoF) and the General Directorates of Taxes and Customs (GDT and GDC). In September, a dedicated revenue unit was established and commenced operations at MoF. The unit prepared its first survey of tax expenditures for the 2016 budget and will update this survey annually, with help from IMF TA.

- **We commit not to grant any further tax exemptions or preferential tax rates, without consulting with the IMF.** This complements the administrative efforts aimed towards broadening the tax base by closing tax loopholes, simplifying tax administration, and creating a more level playing field.

- **We have planned sufficient buffers in the budget to cope with the outcome of pending tax disputes, in order to protect the end-year primary balance target for 2016.** To mitigate risks, we commit to taking additional measures, if needed, to meet that target.

12. We are making good progress in reducing the heavy burden the electricity sector places on public finances, while addressing the infrastructure gap. The financial gap in the sector reflected mostly low collection levels and large network losses. We have implemented an ambitious set of reforms in the sector (see ¶30) that have started to reduce the structural imbalances. Therefore, we aim to limit public guarantees and policy net lending to the sector to 7 billion lek in 2016 and 6.5 billion lek in 2017, with the aim of completely eliminating power sector subsidies by 2020. In addition, we have introduced targeted transfers (amounting to 1.1 billion lek in 2016) to compensate the most vulnerable social groups for electricity tariff adjustments. Subsidies to the electricity sector are transparently reflected in the fiscal accounts under the program and in our budget. If government support to the electricity sector exceeds the annual programmed amount, we commit to taking offsetting fiscal measures to meet the program's fiscal targets.

13. We are addressing other emerging and potential risks to the baseline fiscal framework:

- **Local government reform:** Following local elections in June 2015, 61 local government units replaced the previous 373 communes and municipalities. We are pursuing an ambitious fiscal decentralization strategy, including devolving certain functions, transferring personnel, and providing new financing sources for local governments. Audits are currently taking stock of the finances of the new consolidated units. We plan to expand the dedicated unit at MoF to continuously monitor the finances of local governments. The unit will start preparing annual surveys of local government arrears, starting with 2016. With help from USAID and the World Bank, we plan to review the legal framework on local public finance.

- **Property compensation claims:** The European Court of Human Rights (ECHR) in Strasbourg is processing cases brought against the Albanian government by property owners expropriated under the communist regime. An interagency working group headed by the Deputy Prime Minister has prepared a draft law that provides for compensating all property owners at current market values (based on historical land classification) over a period of 10 years with resources from the budget and state-owned land. The law was passed by Parliament and endorsed by the Council of Europe's Committee of Ministers in December 2015.

- **Capital expenditure:** Outstanding unbudgeted investment projects continue to exceed the government's ability to absorb them in its Medium-Term Budget Framework (MTBF). We have now re-assessed and prioritized all these projects. The Ministry of Economy (MoE) has published a list of all projects that the 2016 budget will support, including an indicative budget for each project for all three years of the MTBF, in order to signal our intention to implement only projects included in the list.

- **Arrears clearance:** The process of clearing the pre-2014 stock of arrears is now essentially complete, and we are reinforcing public financial management to prevent the accumulation of new arrears. The small amounts of outstanding pre-2014 arrears are on pending court cases, and will be paid directly by budgetary institutions out of their allocations. Now that procurement delays for the server upgrade have finally been resolved, we plan to extend our treasury IT system (AGFIS) to 15 budget institutions (accounting for 60 percent of the budget) and one local government by end-March 2016. We are also expanding our triannual survey of new arrears to include the ministries of urban development, culture, and the environment, as well as the Office of the Prime Minister (including the Regional Development Fund).

- **Public Private Partnerships (PPPs):** To limit fiscal risks from PPPs, we will ensure that PPPs follow international best practice and that their related fiscal costs and contingent liabilities are transparently accounted for in the fiscal accounts and debt statistics. We will adopt one of the leading international accounting standards (GFSM, ESA 2010, or IPSAS). In 2016, we will launch a public register of all active PPP projects and will also publish summaries of all PPP contracts as well as the contracts themselves, excluding confidential or protected information, to ensure transparency for the commitments made by the government. We will also accelerate the establishment of a MoF unit that will evaluate fiscal risks, propose measures to mitigate them, and provide risks assessments to be included in budget document submissions to Parliament. By end-2016, this unit will assess the risk stemming from all active PPP and concession contracts and from local government arrears, and will consider whether to quantify these risks in our fiscal accounts. Technical assistance from the Fund and other international partners will continue to help assess our current legal and regulatory framework and suggest recommendations for improvement. Regarding a PPP for the VAT Collection Enhancement System, we will undertake a value-for-money analysis before entering into a tender, and any related decisions will be taken in consultation with IMF staff.

B. Medium-term Fiscal Structural Reforms

14. Advancing tax administration reforms is a key policy priority that underpins our fiscal consolidation strategy. By end-March 2016, the GDT will adopt an implementation plan for a function-based restructuring of GDT's headquarters. It will also fully staff the Risk Management Unit to enable it to identify major compliance risks and develop mitigating strategies. By end-June 2016, the Large Taxpayer Office will be restructured, with specialization according to business sectors. The GDT has started phasing in a modern compliance risk management approach for one major risk cluster, and will commence another one by end-September 2016, with help from Fund TA. By end-2016, the GDT will streamline its regional and local office structure, in order to match business needs. A taxpayer service function will also be established that designs and delivers easy-to-understand and accessible guidance to taxpayers based on their needs and compliance risks, using a variety of communication channels. Finally, by end-2017, the GDT will conduct a comprehensive review of its audit function.

15. We are moving forward with reforms in customs administration. The GDC is working on a restructuring proposal, which benefited from the recommendations provided by the external consultant on customs administration. The GDC will accelerate discussions with customs authorities in neighboring countries to develop real-time intelligence sharing on smuggling risks. It will upgrade the fiscal stamps system to conform to international "track and trace" standards set out in the Framework Convention for Tobacco Control. The GDC will put in place more effective measures to supervise and monitor fuel movements, including through the use of remote GPS-based surveillance in high-risk areas. Closer cooperation and information sharing between the GDT and GDC will enhance revenue administration reform efforts. We will establish a joint GDT-GDC project team to tackle abuses in the domestic tobacco supply chain. Nevertheless, the merger of the two departments remains a medium-term objective, and any related decisions will be taken in consultation with IMF staff.

16. We commit to accelerating the work on fiscal cadastre with the goal of introducing a valuation-based property tax by end-2017. The reform will be undertaken in consultation with Fund TA. As a first step, we plan to introduce a fiscal cadastre to assess tax for each property by end-2016. In parallel, we will work on a valuation formula and methodology, and on drafting the related legislation.

17. In consultation with IMF TA, we are taking steps to shore up the credibility of our medium term budgetary framework (MTBF). MoF will continue to align its budget projections and macro framework with independent external forecasts, such as those produced by the BoA and international financial institutions. In 2016, MoF and MoE will develop a methodology for distinguishing core allocations from new policy initiatives in the MTBF, in order to focus attention on the costing of new policies and prevent them from squeezing core allocations for resources. Starting with the 2017 budget, the MTBF will begin to make that distinction at the sectoral and program level. In addition, starting with the 2017 budget, the MTBF will contain the total approved cost, the sunk cost so far, and remaining cost beyond the three-year window of the MTBF for all projects.

18. We are seeking to improve the process for evaluating, selecting, executing, and monitoring public investment projects:

- To strengthen coordination, MoE has been training experts in line ministries on the public investment cycle. By end-March 2016, the MoF and MoE will compile and publish a short manual that spells out the public investment process, in order to provide a handy reference to the laws and regulations guiding the process.

- In the first half of 2016, we will undergo a Public Investment Management Assessment (PIMA), which will provide recommendations on how to strengthen our management of public investment. The diagnostic assessment will also focus on improving the coordination between projects administered by line ministries and those administered by local government and financed by the Regional Development Fund.

C. Monetary and Exchange Rate Policy

19. The BoA remains committed to achieving an average annual CPI inflation of 3 percent over the medium term. The BoA will continue to run an inflation-targeting framework, under which monetary policy decisions are guided by the deviation of forecasted inflation from its targeted value. Monetary policy will also strive to smooth out the macroeconomic cycle and to avoid excessive volatility in the financial sector. Inflation performance will continue to be monitored under the program through an Inflation Consultation Clause.

20. Monetary policy is likely to remain accommodative for the foreseeable future. At the current juncture, underlying inflationary pressures are weak and the economic recovery remains fragile. Furthermore, the overall balance of risks is skewed to the downside owing to continued domestic slack and external disinflationary pressures, while the monetary policy transmission mechanism is hampered by high risk aversion in the banking system. Under these circumstances, the BoA aims to maintain an accommodative monetary policy stance. We expect inflation to gradually converge to 3 percent over the medium term, as improved balance sheets in the banking system strengthen credit flows and enhance policy transmission channels. To strengthen liquidity management, the MoF will continue to coordinate with BoA on public debt and cash management.

21. Exchange rate flexibility complements our price stability objective and supports our operational framework for monetary policy. The exchange rate is determined entirely by market forces. The BoA undertakes only small pre-announced interventions in the foreign exchange market. The BoA will aim to maintain adequate reserve coverage over the medium term. For the duration of the program, we will not introduce or intensify restrictions on the making of payments and transfers for current international transactions, nor introduce or modify any multiple currency practices, nor conclude any bilateral payments agreements that would violate our obligations under Article VIII of the IMF's Articles of Agreement. Also, we will not introduce or intensify import restrictions for balance of payments reasons.

D. Safeguarding Financial Sector Stability

22. The BoA is maintaining its supervisory vigilance. A risk-based supervision manual introducing a new risk assessment system was adopted in early 2015. The new supervisory process has prioritized enhancing the quality of governance and risk management, with a focus on the fastest-growing and systemically important segments of the banking system.

23. The BoA has upgraded its supervisory framework by adopting CRD IV and the Basel II framework on capital adequacy. The new rules on the risk management of large exposures, which entered into force at the beginning of 2015, require boards of directors of commercial banks to be directly involved in the risk management of large borrowers. Furthermore, systemically important banks are required to develop recovery and resolution plans, which are currently being assessed by the BoA with the assistance of the World Bank. Finally, measures adopted earlier to counteract the slowdown in credit growth, including changes to capital requirements designed to encourage moderate credit growth and discourage outflows to non-resident entities, have been extended temporarily. To maintain consistency with international standards and ensure healthy capitalization in the banking system, we will seek to unwind these measures by the end of 2016, while retaining measures discouraging bank outflows to non-resident entities. We will work with banks to ensure a smooth transition during this process.

24. Given delays in external debt issuance caused by financial turmoil in Greece, the BoA has taken temporary measures to avoid disruptions in the government debt market. In particular, the central bank reduced the risk weights on Albanian government securities issued in foreign currency from 100 to 50 percent. The BoA will assess options for unwinding this measure, in consultation with the Fund.

25. BoA became a European Banking Authority (EBA) college member in November 2015. We have signed a Memorandum of Understanding with EBA, which will improve the coordinated supervision of foreign-owned banks. This represents an important mechanism for exchanging information between home and host regulators, performing key supervisory tasks in a coordinated manner, and handling emergency situations.

26. We are undertaking measures to facilitate problem loan restructuring. The BoA is developing recovery and resolution plans for large problem borrowers. A new regulation requiring mandatory write-offs of loans that have spent three years in the "loss" category came into force at the beginning of 2015. As a result, at end-September 2015, approximately 16.8 billion lek of "loss" loans have been written off from banks' balance sheets. The NPL ratio fell to 21 percent at end-September 2015 from 25 percent a year ago. To further facilitate this process, the BoA will coordinate with the MoF to streamline the tax treatment of collateral recovered in judicial procedures after it has been written off from bank balance sheets.

27. We are committed to implement further regulatory and legal reforms to reduce NPLs and promote sound credit growth. We have constituted a high-level working group, with a mandate to develop a comprehensive strategy to address the NPL issue. The strategy was approved by the Prime Minister and BoA Governor in August and published in November 2015 on MoE's website. It integrates and sequences reforms in the areas of supervision, enforcement, debt restructuring, and insolvency:

- By end-March 2016, the BoA will undertake regulatory changes in order to revise the terminology on write-offs, change the time limit for holding repossessed collateral on banks' books, and improve the regulatory framework for NPL sales.
- Also by end-March 2016, we will draft a detailed action plan for handling the 35 largest holders of NPLs and we will change regulations to require banks to grant loans based on companies' fiscal declarations, starting in January 2018. In addition, we will submit to Parliament amendments to Law on Securing Charges and Law on the Registration of Immovable Properties to better protect financial collateral and to increase the legal certainty of security rights over real estate.
- By end-April 2016, the BoA will adopt measures to accelerate the reduction of NPLs through the use of out-of-court debt restructuring.
- With technical assistance from the World Bank and the IMF, the Ministry of Justice will submit a new bankruptcy law to Parliament by end-June 2016. It will incorporate best international practices, simplify the existing framework, allow for expedited approval of reorganization plans, and protect the economic and governance rights of secured and unsecured creditors.
- By end-September 2016, we will submit to Parliament amendments to the Civil Procedure Code and the Private Bailiffs Law to increase the efficiency of litigation, foreclosure procedures, and debt collection.
- Finally, by end-December 2016, we will upgrade the Credit Register (for example, by adding ongoing legal cases).

28. AFSA is strengthening its toolbox and capacity to monitor non-bank financial institutions. New regulations on asset valuation and liquidity requirements for investment funds were adopted at end-June 2015. Following these changes, AFSA will monitor closely the transition of existing funds to the new regulatory framework. It will also assess carefully all license applications to protect financial stability, in line with the new framework. In particular, new investment fund licenses will be considered only after the final member of AFSA's executive board is appointed and the full board is operational. Finally, AFSA will encourage competition among investment fund custodians.

29. The BoA is taking measures to implement the recommendations of the 2015 safeguards monitoring report. In June 2015, the BoA's Supervisory Council appointed an external technical expert to assist the Audit Committee (AC). The Supervisory Council approved the draft AC charter in August 2015. Parliament appointed a new Inspector General in early April and the internal audit function has resumed normal operations. Specifically, the 2014 internal audits were finalized and a risk-based internal audit plan for 2015 has been developed and approved. The Internal Audit Department (IAD) has submitted to the IMF its audits of program monetary data for end-September and December 2014, and for end-April and August 2015. The IAD will update the AC on a semi-annual basis on the implementation status of external and internal auditors' recommendations, including those related to improving controls over currency operations. The central bank of The Netherlands completed an assessment of the internal audit function in September 2015. The BoA will prepare its 2015 financial statements in accordance with the IFRS by end-March 2016. We will launch the process of amending the BoA Law in order to strengthen the central bank's institutional and operational independence, with the objective of submitting a draft to Parliament by end-2016.

E. Structural Reforms

30. We are encouraged by the early results from our efforts to reduce losses and improve collections in the electricity sector. Distribution losses—unbilled power as a share of total power entering the distribution system—fell from 45 percent in 2013 to 31 percent in the first ten months of 2015. We are committed to reducing distribution losses to 14 percent by 2019. We will ensure that budgetary, non-budgetary, and local government institutions make timely and full payments on their electricity bills, including by setting up escrow accounts for their budget allocations for electricity bills. Further reforms will need to focus on improving corporate governance, which is key for the sustainability of the electricity sector. We are moving forward with a performance management contract for the distribution company, and expect the new team of consultants to be in place by mid-2016. Finally, we will begin publishing quarterly financial statements for the generation and distribution companies, KESh and OShEE.

31. The new power sector law was approved by Parliament in May 2015. It restructures the relationship among the three public power companies responsible for generation, transmission, and distribution (KESH, OST, and OSHEE) and moves toward further market liberalization, in line with the EU's 2009 Electricity Directive. The law sets in place a schedule for moving all medium-voltage customers out of the regulated tariff structure by end-2017, beginning with 35kV customers by mid-2016 and 20kV customers by end-2016. On completion, the share of deregulated consumption would increase from 13 to 33 percent of the total energy consumed.

F. Statistics

32. INSTAT will continue with its efforts to improve the quality of macroeconomic statistics. By end-June 2016, we will submit a revised Law on Statistics to Parliament, in order to strengthen INSTAT's institutional independence and provide adequate legal support for more effective cooperation and coordination among INSTAT, MoF, and BoA. By end-2016, the three institutions will establish a Memorandum of Understanding detailing processes and responsibilities for data sharing, source data collection, and statistical compilation.

Program Monitoring

33. We anticipate that the seventh program review will take place on or after March 15, 2016, and require observance of the conditionality for end-December 2015. Thereafter, reviews will occur every four months starting on or after July 15, 2016, and require observance of the conditionality for the most recent test date. The final review will take place on or after February 15, 2017 and require observance of the conditionality for end-November 2016.

Table 1. Albania: Quantitative Performance Criteria and Indicative Targets for 2014–16

(In billions of leks, unless otherwise indicated)

	2014				2015								2016			
	Mar	Jun	Sep	Dec	Apr			Aug			Dec		Apr		Aug	Nov
	Act.	Act.	Act.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Prog. Adj.	Act.	Prog.	Est.	Prog.	Rev. Prog.	Prog.	Prog.
I. Quantitative Performance Criteria and Indicative Targets																
1. Floor on net international reserves of the BoA (EUR million)	1463	1495	1525	1539	1507	1389	1587	1509		1624	1510	1601	1535	1535	1454	1476
2a. Ceiling on general government overall cash deficit (cumulative) 2/ 3/	1.2	6.0	8.0	41.5	16.9	17.2	1.0	22.2	20.4	7.5	52.1		-8.4			
2b. Floor on general government primary modified cash balance (cumulative)														9.0	13.1	6.3
3a. Ceiling on general government expenditure (cumulative) 2/ 3/		181.2	274.7	408.0	141.6	144.9	122.8	280.0	281.2	256.1	457.5		132.2			
3b. Ceiling on general government primary expenditure (cumulative)														120.9	253.7	370.2
4. Ceiling on the increase of Bank of Albania credit to the general government (cumulative) 4/	-0.1	0.0	0.0	0.0	0.0		0.0	0.0		0.0	0.0	-10.4	0.0	0.0	0.0	0.0
II. Continuous Performance Criteria																
5. Accumulation of new external payment arrears by the general government (EUR million)	0.0	0.04	0.0	0.0	0.0		0.0	0.0		0.0	0.0		0.0	0.0	0.0	0.0
III. Inflation Consultation																
6. 12-month percent change in consumer prices																
Upper outer band					5.0			5.0			5.0		5.0	5.0	5.0	5.0
Upper inner band					4.0			4.0			4.0		4.0	4.0	4.0	4.0
Actual/center point	1.9	1.6	1.7	1.3	3.0		2.0	3.0		1.6	3.0		3.0	3.0	3.0	3.0
Lower inner band					2.0			2.0			2.0		2.0	2.0	2.0	2.0
Lower outer band					1.0			1.0			1.0		1.0	1.0	1.0	1.0
IV. Indicative Targets																
7. Ceiling on subsidies to the energy sector					4.4		4.6	8.7		4.6	13.1		4.4	1.7	3.1	4.2
8. Average distribution losses by energy distribution company (OSHEE) (percent, cumulative from beginning of year)					37.0		33.2	34.5		31.7	34.0		28.6	28.6	25.3	25.2
9. Ceiling on contracting nonenergy guarantees					0.0		0.0	0.0		0.0	0.0		0.0	0.6	1.1	1.5
10. Ceiling on accumulation of central government domestic arrears (as reported by MoF's survey on arrears accumulation)	0.4	1.1	0.4	0.3	0.0		1.1	0.0		1.1	0.0		0.0	0.0	0.0	0.0
11. Floor on clearance of central government domestic arrears 5/	1.0	19.1	25.9	33.8	5.0		7.6	10.0		14.5	15.0		5.0			
Memorandum Items																
New energy guarantees (excluding rollover)					4.4		4.6	6.7		4.6	10.1		4.4	1.7	3.1	4.2
Privatization receipts	0.001	0.010	0.026	0.035	0.0		0.1	0.0		0.6	0.0		0.0	0.0	0.0	0.0
One-off revenues					0.0		4.3	0.0		6.1	0.0		0.0			
Total non-grant revenues														126.8	260.5	365.4
Project grants					4.7		2.6	5.9		5.5	10.0		2.6	3.2	6.5	7.8

Source: Albanian authorities; and Fund staff estimates and projections.

1/ All adjustors are described in the Technical Memorandum of Understanding (TMU).

2/ Data revisions have led to minor adjustments for the outturn of the cash deficit for March, June, September, and December 2014, and for government expenditure for June, September, and December 2014.

3/ Excluding arrears payments under the APCS. The assessment of performance in 2014 also excluded new energy and nonenergy guarantees, which were not part of the original PC but are now included in the fiscal framework.

4/ Indicative target through December 2014.

5/ General government for March 2014.

Table 2. Albania: Prior Actions for Completing the Combined Fifth and Sixth Reviews under the Extended Arrangement

Prior Actions	Status
I. Public Financial Management	
1. Publish on the websites of MoF and MoE a report on the prioritization of all outstanding infrastructure projects. The report should be approved by the Council of Ministers and include: • for each active project: total cost, sunk cost so far, allocations for 2016-18, remaining cost beyond 2016–18; • for each inactive project: total cost and sunk cost so far.	Met.

Table 3a. Albania: Structural Benchmarks with 2015 Test Dates under the Extended Arrangement

Structural Benchmarks	Test Date	Status	Remarks
I. Public Financial Management			
1. Publish a quarterly report on arrears paid on MoF's website.	Continuous	Met.	
2. Publish a triannual report on new arrears accumulation in ten key ministries and the GDT on MoF's website.	Continuous	Met.	
3. Publish, on MoF's and MoE's websites, a report on the prioritization of all outstanding infrastructure projects, including a ranking approved by the CoM using transparent criteria.	End-June 2015	Implemented with a delay.	
4. Roll out the AGFIS to 15 budget institutions (see TMU).	End-Dec. 2015	Not met.	Delayed to end-March 2016.
5. Change the Procurement Law (PL), the Financial Management and Control Law (FMCL), and the Budget Law (BL) to incorporate multi-year commitment limits.	End-Dec. 2015	Partially implemented.	FMCL amended. No need to amend PL. BL amendments delayed to early 2016.
II. Tax Administration			
6. Commence auditing tax refunds on a risk basis.	End-June 2015	Implemented with a delay.	Started on September 28.
III. Financial Sector and Central Banking			
7. BoA to submit to the IMF the audits for the end-September and end-December 2014 program data.	End-July 2015	Met.	
8. Albanian Financial Supervisory Authority (AFSA) to amend the regulatory framework for investment funds on asset valuation and liquidity requirements.	End-June 2015	Met.	
IV. Electricity Sector			
9. Prepare a quarterly survey of the gross consolidated arrears of the electricity sector (KESH, OST, OSHEE) to the private sector.	Continuous	Met.	
10. Remove 35kV medium-voltage consumers from the regulated tariff system.	End-Dec. 2015	Not met.	Delayed to end-June 2016.

Table 3b. Albania: Proposed Structural Benchmarks for 2016 under the Extended Arrangement

	Structural Benchmarks	Test Date	Status	Remarks
	I. Public Financial Management			
1.	Publish a triannual report on new arrears accumulation in thirteen key ministries, OPM, and GDT on MoF's website.	Continuous		
2.	Roll out the AGFIS to 15 budget institutions (see TMU).	End-Mar. 2016		
3.	Amend the Budget Law to incorporate multi-year commitment limits.	End-Mar. 2016		
	II. Tax Policy and Administration			
4.	List and quantify tax expenditures in the annual budget documentation submitted to Parliament.	Continuous		
5.	Adopt an implementation plan for a function-based headquarters structure for GDT.	End-Mar. 2016		
6.	Restructure GDT's Large Taxpayer Office with specialization according to business sectors.	End-Jun. 2016		
7.	Commence phasing in a modern compliance risk management approach at GDT, starting with two major risk clusters.	End-Sep. 2016		
8.	Create a fiscal cadastre to assess tax for each property.	End-Dec. 2016		
	III. Financial Sector			
9.	Submit to Parliament a new Bankruptcy Law, incorporating best international practices and simplifying existing procedures.	End-Jun. 2016		
10.	Submit to Parliament amendments to Civil Procedure Code and Private Bailiffs Law to increase the efficiency of litigation, foreclosure procedures, and debt collection.	End-Sep. 2016		
	IV. Electricity Sector			
11.	Prepare a quarterly survey of the gross consolidated arrears of the electricity sector (KESH, OST, OSHEE) to the private sector.	Continuous		
12.	Publish quarterly financial statements for KESh and OShEE.	Continuous		
13.	Remove 35kV medium-voltage consumers from the regulated tariff system.	End-June. 2016		
14.	Remove 20kV medium-voltage consumers from the regulated tariff system.	End-Dec. 2016		

Attachment II. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the indicators used to monitor the program, and reflects the understandings between the Albanian authorities and the IMF. The TMU also defines the associated reporting requirements.

2. The exchange rates for the purposes of the program are set at lek 140.25 = €1, lek 103.17 = $1, and lek 158.05 = SDR 1. The gold price is set at €920.18 = 1 oz. These were the rates shown on the Bank of Albania's website as of November 30, 2013.[1]

3. For the purpose of the program, the central government includes extra-budgetary funds. The general government includes the central government, local governments, the Social Security Institute (SSI), and the Health Insurance Institute (HII).

4. The fiscal year starts on January 1 and ends on December 31.

Quantitative Performance Criteria

A. Floor on Net International Reserves of the BoA

Definition

5. **Net international reserves** (NIR) are defined as reserve assets minus reserve liabilities of the Bank of Albania (BoA). **Reserve assets** are readily available claims of the BoA on nonresidents denominated in foreign convertible currencies, and held for the purpose of meeting balance of payments financing needs, intervening in exchange markets, and other purposes. They include BoA holdings of monetary gold, SDRs, Albania's reserve position with 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).

6. **Reserve liabilities** are defined as foreign exchange liabilities to residents and nonresidents of the BoA, irrespective of their maturity. They include: foreign currency reserves of commercial banks held at the BoA; foreign currency deposits of the government held at the BoA; all credit outstanding from the IMF that is a liability of the BoA; 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. Reserve assets and reserve liabilities will both be expressed in euros, at the program exchange rate.

[1] http://www.bankofalbania.org/web/Time_series_22_2.php?evn=agregate_detaje&evb=agregate&cregtab_id=644&periudha_id=1

Reporting

7. Data will be provided by the BoA to the Fund with a lag of no more than five days past the test date.

B. Cumulative Floor on General Government Primary Modified Cash Balance

Definition

8. The **primary modified cash balance of the general government** will be measured from the financing side (below the line) at current exchange rates, based on the template below:

MODIFIED CASH BALANCE
Financing
Domestic
Privatization receipts (gross)
Domestic net borrowing (using residency criterion)
Central government net direct debt
Central government guarantees (drawings minus repayments)
Local government net direct debt
Other
Change in the balance of government accounts at BoA
Change in the balance of TSA bank account
Change in the balance of SSI & HII's bank accounts
Change in the balance of trust accounts
On-loan principal
Change in the balance of government accounts outside BoA
Government accounts outside TSA (in commercial banks)
Transitory accounts – guarantees on custom duties
Cash in transit
Accounting items
Variance accrual-cash
Float
Liability to SSI (receipts minus payments)
Others
Foreign
Drawings
Long-term loans (all direct debt drawings included in Albania's official debt statistics, including loans for the energy sector, even if on-lent)
Budget support loans (drawings)
Guarantees (drawings)
Change of statistical account
Repayments (of direct and guaranteed debt)

9. In determining the primary modified cash balance, the following considerations will apply:[2]

- Domestic borrowing is reported on a net basis and using the residency criterion. It covers bank loans, securities issued, overdraft accounts, and other debt instruments, less government deposits.
- Principal repayments include only principal paid by the government and not that by the actual borrower. In case a borrower repays the Ministry of Finance (MoF) at a later point in time, principal is recorded under "on-loan principal."
- Foreign borrowing is reported on a gross basis and using the residency criterion. It covers disbursements by international financial institutions, bank loans, securities issued, overdraft accounts, and other debt instruments.
- "Change of statistical account" covers funds disbursed but not yet withdrawn and held by nonresidents in financial institutions for project-related spending.
- "Repayments" refers to all payments to nonresidents related to disbursements or guarantees by international financial institutions, bank loans, securities, overdraft accounts, and other debt instruments.

10. The primary modified cash balance will also include all new issuances of general government guarantees (excluding rollover) for the energy and non-energy sectors, as well as net policy lending. It will exclude interest payments.

Reporting

11. Data will be provided to the Fund, using current exchange rates, with a lag of no more than 30 days after the test date for April and August test dates. For December test dates, data should be provided no more than 60 days after the test date.

Adjustors

12. The **floor on the primary modified cash balance** of the general government will be adjusted upward (downward):

- the shortfall (excess) of new energy guarantees, excluding rollover, issued during the course of the year up to a maximum of the annual budgeted allocation. The adjustor will not apply to December targets. Energy guarantees are defined as guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE.

13. The **floor on the primary modified cash balance** of the general government will be adjusted downward by:

- 50 percent of privatization receipts, up to total privatization receipts of lek 15 billion in a given year.

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[2] Cash balance data come from the Treasury, the Debt Office, and the BoA.

C. Cumulative Ceiling on General Government Primary Expenditure

Definition

14. General government primary expenditure covers spending on personnel, operations and maintenance, subsidies, social insurance outlays, local government expenditures, other current expenditures (social protection transfers), capital expenditure, reserve and contingency funds, and net lending, as reported in the government's monthly fiscal indicators table. It excludes interest payments.

Reporting

15. Data will be provided to the Fund, using current exchange rates, with a lag of no more than 30 days after the test date for April and August test dates. For December test dates, data should be provided no more than 60 days after the test date.

Adjustors

16. The **ceiling on primary expenditure** of the general government will be adjusted upward (downward) by:

- the excess (shortfall) of new energy guarantees, excluding rollover, issued during the course of the year up to a maximum of the annual budgeted allocation. The adjustor will not apply to December targets. Energy guarantees are defined as guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE.

17. The **ceiling on primary expenditure** of the general government will be adjusted upward by:

- 50 percent of privatization receipts, up to total privatization receipts of lek 15 billion in a given year.
- the excess of total non-grant revenues (both tax and non-tax) over programmed amounts, up to a maximum of lek 4 billion in 2016.
- the excess of project grants over the programmed amount, up to a maximum of lek 15 billion in a given year.

D. Cumulative Ceiling on the Increase of Bank of Albania Credit to the General Government

Definition

18. Credit of the central bank to the general government is defined as outstanding claims of the BoA on the general government, including overdrafts, direct credit, and holdings of government securities (excluding repo operations), advance distribution of profits, other technical receivables, and holdings of the BoA pension fund. For the purpose of this target, government securities will be valued at their original purchase price. The stock of central bank credit to the government amounted to lek 63.965 billion at the end of December 2013. The cumulative ceiling will be computed relative to that amount.

Reporting

19. Data will be provided by the BoA to the Fund on a monthly basis with a lag of no more than fifteen days.

Continuous Performance Criteria

A. Accumulation of New External Payment Arrears by the General Government

Definition

20. **External debt** is determined according to the residency criterion. The term "debt"[3] 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. Debt can take a number of forms, the primary ones being as follows:

- **loans**, defined as advances of money to the 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);
- **suppliers' credits**, defined as contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and
- **leases**, defined as arrangements under which property is provided which the lessee has the right to use for one or more specified periods of time that are usually shorter than the total expected service life of the property. For the purpose of the program, 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.

21. Under the definition of debt set out above, 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.

22. Under the definition of debt set out above, external payments arrears consist of arrears of external debt obligations (principal and interest) falling due after the due date and grace period, as

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[3] As defined in Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, Decision No. 6230-(79/140), as amended.

specified in the contract, has passed. Arrears resulting from nonpayment of debt service for which a clearance framework has been agreed or a rescheduling agreement is being sought are excluded from this definition.

23. The external arrears of the general government will be calculated based on the schedule of external payments obligations reported by the MoF. Data on external arrears will be reconciled with the relevant creditors, and any necessary adjustments will be incorporated in these targets as they occur.

24. The performance criterion on the accumulation of new external payment arrears by the general government will exclude any arrears relating to obligations prior to 2014 which existed prior to the program but are now recognized.

25. This performance criterion does not cover arrears on trade credits and will apply on a continuous basis.

Reporting

26. The MoF will provide the final data on the external arrears of the general government to the Fund, with a lag of no more than two weeks after the end of each month.

Inflation Consultation

27. **The triannual consultation bands apply to the 12-month rate of inflation** in consumer prices as measured by the headline consumer price index (CPI) published by the INSTAT. Should the observed year-on-year rate of CPI inflation (4-month average) fall outside the outer bands, the authorities will complete a consultation with the IMF on their proposed policy response before requesting further purchases under the program. In addition, the BoA will conduct discussions with IMF staff should the observed year-on-year rate of CPI inflation (4-month average) fall outside the inner bands specified for each trimester.

Indicative Targets

A. Ceiling on Subsidies to the Energy Sector

Definition

28. **Subsidies to the energy sector** are defined as new guarantees issued by the general government for the benefit of the electricity operators KESH, OST, and OSHEE, excluding rollover.

Reporting

29. Data will be provided to the Fund by the MoF on a monthly basis with a lag of no more than thirty days.

B. Ceiling on Average Distribution Losses by OSHEE

Definition

30. **Average distribution losses** are defined as the difference between total electricity entering the distribution system and the amount of electricity billed to consumers by OSHEE, the energy distribution company, as a share of the total amount of electricity entering the distribution system. These are measured on a cumulative basis for each calendar year.

Reporting

31. Data will be provided to the Fund by the Ministry of Energy on a monthly basis with a lag of no more than thirty days.

C. Ceiling on Contracting Nonenergy Guarantees

Definition

32. **Nonenergy guarantees** are defined as new guarantees issued by the general government, excluding those issued for the benefit of the electricity operators KESH, OST, and OSHEE.

Reporting

33. Data will be provided to the Fund by the MoF on a monthly basis with a lag of no more than thirty days.

D. Ceiling on Accumulation of Central Government Domestic Arrears

Definition

34. **Central government domestic arrears** consist of domestic expenditure arrears of the central government and domestic tax refund arrears. **Domestic expenditure arrears** are defined as payments to residents determined by contractual agreements that remain unpaid 30 days after the due date specified by the contract, or, in the absence of a contractual definition, as determined by law.

35. **Domestic tax refund arrears** are defined as obligations on any valid tax refund claims, in accordance with tax legislation, that remain unpaid 60 days after the claim is submitted.

36. For the purpose of this target, the accumulation of domestic arrears will be monitored through MoF's triannual survey on arrears accumulation. The recording of invoices and tax refund claims should be cumulative, that is, the recording in each trimester should include all invoices/refund claims that have not been paid from the previous trimesters, starting from the beginning of 2014. MoF should verify that the invoices/refunded claims reported in the survey are not already included in the arrears clearance database.

Reporting

37. MoF should send to the Fund the consolidated data from the survey with a lag of no more than 75 days after each trimester.

Structural Benchmarks

38. **MoF to publish a triannual survey on new arrears accumulation in thirteen key ministries, OPM, and GDT.** The ministries covered are Transportation, Health, Education, Defense, Justice, Interior, Agriculture, Finance, Economy, Social Welfare, Urban Development, Culture, and the Environment. The Office of the Prime Minister includes the Regional Development Fund. The survey should be published within 75 days from the end of each trimester.

39. Roll out the AGFIS to 15 budget institutions (60 percent of budget). The 15 budget institutions are as follows: Council of Ministers, Ministry of Transport and Infrastructure, Road Authority, Ministry of Finance, National Agency of Information Society, Municipality of Tirana, Ministry of Welfare, Ministry of Education, Ministry of Agriculture, Agricultural and Rural Development Agency, Ministry of Health, Ministry of Interior, Ministry of Justice, Ministry of Defense, and Ministry of Energy.

40. List and quantify tax expenditures in the annual budget documentation submitted to Parliament. The survey of tax expenditures should be submitted to Parliament by end-November of each year.

41. Adopt an implementation plan for a function-based headquarters structure for GDT. This benchmark is met when the Prime Minister approves the implementation plan.

42. Restructure GDT's Large Taxpayer Office with specialization according to business sectors. This benchmark is met when a chart of the current organization of the LTO shows that it is organized according to business sectors.

43. Commence phasing in a modern compliance risk management approach at GDT, starting with two major risk clusters. This benchmark is met when: (1) strategies have been adopted for the mitigation of two major identified compliance risk clusters; (2) operational plans reflecting the strategies are in place; and (3) substantial operational implementation activities have commenced.

44. Prepare a quarterly survey of the gross consolidated arrears of the electricity sector to the private sector. The survey should be prepared within 15 days from the end of each quarter.

45. Publish quarterly financial statements for KESh and OShEE. The statements will be published within 30 days from the end of March, June, and September, and within 120 days from the end of December.

Monitoring and Reporting Requirements

46. To facilitate the monitoring of program performance, the authorities will provide the following information on a monthly basis (except where noted).

The Bank of Albania will supply to the Fund:

i) the balance sheets of the BoA;

ii) the separate consolidated accounts of commercial banks and Savings and Loan Institutions;

(iii) the monetary survey;

(iv) banking sector prudential indicators;

(v) the net foreign assets of the BoA and their components;

(vi) comprehensive information on reserve assets that are pledged, collateralized, or otherwise encumbered;
(vii) the foreign exchange cash flow of the BoA, including the level of NIR;
(viii) daily average exchange rates;
(ix) quarterly balance of payments data and updates of balance of payments estimates;
(x) inflation forecasts on a monthly basis; and
(xi) data on government deposits and net domestic financing.

The Ministry of Finance will supply to the Fund:
(i) the summary monthly fiscal table, including the overall budget deficit, on a modified cash basis;
(ii) issuance of treasury bills and bonds 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 official grants for projects or budget support purposes;
(vii) information on the stock of expenditure arrears identified in the APCS, and progress in arrears repayment;
(viii) information on the accumulation of new arrears in central government ministries;
(ix) information on the implementation of stronger procurement and commitment controls;
(x) information on energy and non-energy guarantees issued by the general government, including on new issuance, drawings, repayments (called and non-called), interest (called and non-called), late returned principal and interest, separately for domestic versus external as well as energy versus non-energy guarantees; and
(xi) monthly local government spending (including conditional and unconditional grants).

The General Directorate of Customs will supply to the Fund:
(i) detailed monthly data on customs revenues collected.

The General Directorate of Taxation will supply to the Fund:
(i) detailed monthly data on tax revenues collected;
(ii) information on progress in implementing business restructuring and IT reforms; and
(iii) information on the stock of VAT refunds claimed, refund arrears, and refunds paid out.

The Albanian Statistical Agency (INSTAT) will supply to 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 “Conjuncture”; and

(v) preliminary estimates for quarterly GDP and preliminary estimates for annual GDP disaggregated by 35 sectors and distinguishing between the observed and unobserved economy.