



**REPUBLIC OF ALBANIA  
COUNCIL OF MINISTERS**

**ECONOMIC REFORM PROGRAMME  
2024-2026**

*15 January 2024*

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## LIST OF ABBREVIATIONS

AEO	Authorised Economic Operator
AKUM	National Agency for Water and Wastewater Infrastructure
ALL	Albanian Lek
AIDA	Albanian Investment Development Agency
AShK	State Cadastre Agency
BoA	Bank of Albania
Bn	Billion
CEFTA	Central European Free Trade Agreement
CoM	Council of Ministers
DCM	Decision of the Council of Ministers
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EE	Energy Efficiency
EEA	European Economic Area
EIB	European Investment Bank
ERP	Economic Reform Programme
EPP	Employment Promotion Program
ESA	European System of Accounts
ETF	European Training Foundation
EU	European Union
EUD	Delegation of the European Union to Albania
EUR	Euro
FDI	Foreign Direct Investment
FMC	Financial Management Control
GDP	Gross Domestic Product
GDT	General Directorate of Taxation
GoA	Government of Albania
GVA	Gross Value Added
Ha	Hectare
HEI	Higher Education Institution
HPP	Hydro Power Plant
HSh	Albanian Railway
IBRD	International Bank for Reconstruction and Development
ICMS	Integrated Case Management Information System
ICT	Information and Communications Technology
IMF	International Monetary Fund
INSTAT	Institute of Statistics of the Republic of Albania
IPA	Instrument for Pre-Accession Assistance
KESH	Albanian Power Corporation
KfW	German Credit Institute for Reconstruction (Kreditanstalt für Wiederaufbau)
Km	Kilometre
Ktoe	Kiloton of oil equivalent
LIS	Land Information System
LGA	Local Government Authority
MARD	Ministry of Agriculture and Rural Development
MEFA	Ministry for Europe and Foreign Affairs

Albania's Economic Reform Programme 2024-2026

MES	Ministry of Education and Sport
MFE	Ministry of Finance and Economy
MHSP	Ministry of Health and Social Protection
MIE	Ministry of Infrastructure and Energy
Mn	Million
MSME	Micro, Small and Medium-Sized Enterprises
MTE	Ministry of Tourism and Environment
MWh	Megawatt hours
NAES	National Agency for Employment and Skills
NAIS	National Agency for Information Society
NASRI	National Agency for Scientific Research and Innovation
NCB	National Business Centre
NEET	Not in Employment, Education of Training
NESS	National Employment Skills Strategy
OBL	Organic Budget Law
OECD	Organisation for Economic Cooperation and Development
OST	Transmission System Operator
OShEE	Power Distribution Operator
PFM	Public Finance Management
PISA	Program for International Student Assessment
PIU	Project Implementation Unit
PMO	Prime Minister's Office
RDI	Research, Development and Innovation
SAA	Stabilisation and Association Agreement
SEE	South East Europe
SILC	Survey on Income and Living Conditions
SME	Small and Medium-sized Enterprises
TPP	Thermo Power Plant
VAT	Value Added Tax
VET	Vocational Education and Training
WB	World Bank Group
WBIF	Western Balkans Investment Framework
WHO	World Health Organisation
WTO	World Trade Organisation
WTTC	World Travel and Tourism and Council

## 1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Economic Reform Program (ERP) for the period 2024-2026 delineates key macroeconomic and fiscal policies, with a primary focus on striking an optimal balance between opportunities and risks. The overarching goal is to foster sustainable economic development, spur employment growth, and ensure the medium and long-term sustainability of public finances. Concurrently, the program aims to safeguard and reinforce the country's macroeconomic stability. Furthermore, the ERP succinctly outlines crucial structural reforms prioritized by the Albanian government for the short and medium term. These reforms are designed to bolster domestic production, stimulate new investments, and foster sustainable, inclusive growth, enhancing overall competitiveness. The underlying objective of this strategic approach is to provide ongoing visibility to reforms in progress, thereby ensuring the sustained momentum of the priority reform agenda.

Over the past three years, Albania's economic performance has showcased remarkable resilience in the face of significant challenges. The nation grappled with a series of rapid and severe external shocks, including an earthquake, a global pandemic, and supply disruptions in essential goods arising from the conflict in Ukraine. Despite these formidable challenges, the country's key economic and financial fundamentals, as well as overall macroeconomic stability, have demonstrated notable resilience. Notably, the economy has adapted adeptly, surpassing initial expectations with robust economic growth in each of these years. Even in 2023, despite encountering tighter financing conditions and a slowdown in foreign demand, Albania's economy has continued to perform admirably. Projections indicate a sustained positive trend in the medium term, underscoring the nation's capacity to navigate and overcome adverse economic conditions.

The ongoing focus of fiscal policy remains steadfastly centered on fiscal consolidation, positioning it as the primary objective. This strategic approach is crucial for upholding the macroeconomic stability of the country, especially in the face of economic shocks and hardships, laying the foundation for achieving a relatively high, sustainable, and inclusive economic growth trajectory. Within this framework, fiscal policy endeavours to chart a course towards a gradual reduction in public debt. Simultaneously, there is a concerted effort to restore the primary balance to a positive level, starting from the year 2024. This commitment aligns with the stipulated fiscal rules in the Organic Budget Law (OBL), emphasizing the adherence to sound fiscal principles for long-term economic resilience and stability.

The primary balance is target at an average of around 0.6 percent per year over the upcoming medium-term period (2024-2026). Notably, commencing from the fiscal year 2024 and onward, this target assumes a legally binding status. As stipulated in the OBL, it is mandated that starting from 2024 and for each subsequent year, the primary balance will be no less than zero, ensuring a balanced or positive stance. We are targeting a surplus of 0.2 percent of GDP for 2024, projected to expand further to 0.8 percent in 2025 and reaching 0.9 percent in 2026.

Consequently, this commitment to fiscal prudence is expected to steer the gross public debt on a downward trajectory, aligning with the respective "debt-brake" fiscal rule. Anticipated figures for 2023 indicate a decline in public debt to around 61.5 percent of GDP (or less) from approximately 64.5 percent in 2022. The trend is set to persist, with an expected further reduction to approximately 59.8 percent in 2024. According to the baseline scenario, public debt is expected to decrease to around 58.9 percent by 2026, with a subsequent decline to approximately 52.7 percent by 2031.

Simultaneously with our commitment to fiscal consolidation, we aim to uphold a prudent balance between current and capital budget expenditures. Our focus is on directing central government's capital expenditures, representing the bulk of public investments, to consistently exceed 4.5 percent of GDP annually throughout the 2024-2026 budgetary period (with an average of 5.0 percent per year). In tandem, the budget deficit is targeted to average 2.2 percent per year during this timeframe. Therefore, underpinning our fiscal strategy is the dedication to maintaining a positive current fiscal balance, aligning with the stipulations of the "golden rule" of the budget. This translates to an average targeted current fiscal balance of +2.7 percent of GDP per year over the medium-term span from 2024 to 2026.

## 2. IMPLEMENTATION OF THE POLICY GUIDANCE

### Policy Guidance 1

#### PG 1.1

**Achieve as envisaged a non-negative primary balance in 2023 while providing targeted support to vulnerable households and firms if needed to cushion the impact of high energy prices and, thereafter, implement the medium-term budgetary plan aiming to reduce the public debt ratio and increase the primary surplus while using the regular revision process for budget amendments.**

In 2023, the primary balance was targeted to achieve a non-negative level and is anticipated to result in a neutral or slightly positive outcome, representing a notable improvement from the negative level of -1.8 percent of GDP recorded at the close of 2022. Moreover, as specified in the OBL, starting from the fiscal year 2024 and each subsequent year, the primary balance is mandated to be no less than zero. Adhering to this new legal obligation, the positive trajectory of the primary balance is expected to continue, with the primary balance projected to reach 0.2 percent of GDP in 2024, 0.8 percent in 2025, and 0.9 percent in 2026. Achieving a zero primary balance to GDP ratio in 2023 will satisfy the requirement of the primary balance fiscal rule (mandating a non-negative primary balance from 2024 onward) a year ahead of the stipulated deadline.

Simultaneously, the estimated gross public debt outlined in the MFF is projected to follow a downward trajectory in line with the respective debt-brake fiscal rule in the OBL. Public debt is expected to decrease to around 59.8 percent of GDP in 2024 from approximately 61.5 percent expected in 2023, further diminishing to about 58.9 percent by 2026 and eventually declining to approximately 52.7 percent by 2031.

Due to a considerably improved performance in the energy (electricity) sector in 2023 compared to initial expectations, the support provided to vulnerable households and firms to mitigate the impact of high energy prices was limited in comparison to 2022. Notably, there were no untargeted subsidies allocated to state-owned electricity enterprises, despite an initial budget allocation of 12 billion Lek for this purpose.

Until October 2023, there were no budgetary revisions, whether through the regular budgetary process or by normative acts. The initial budget revision took place in October, facilitated through a normative act due to the time constrain. The revision primarily aimed at addressing intra-annual accumulated arrears, typically accrued during the first three quarters of the year. Additionally, the revision involved the reallocation of unexecuted capital expenditures funds, directing them towards projects exhibiting superior execution performance.

#### PG 1.2

**Keep general government arrears in each quarter of 2023 at maximum 2.5% of total expenditure and below 2.4% of total expenditure at end-2023.**

The main priority in the medium term of the Ministry of Finance and Economy remains clearing the stock of arrears and preventing their accumulation. In recent years this objective has been achieved as the stock of arrears has followed a progressive downward trend, even though factors such as the effects of the global energy crisis, the war in Ukraine, fluctuations of energy, fuel and input prices, have affected the “behaviour” and reduction progress of the total arrears’ stocks through FY2023. On the other hand, the setting of specific targets over the years, (ex. Good Governance, ERP, and PEFA rating) has helped and led to a reduction of the arrears stock in recent years. Specifically:

- PEFA Rating (A score)

The stock of arrears should not exceed 2% of total expenditures in at least two of the last three fiscal years. This target has been achieved for the year 2022 and expectations are positive for the target to be met in 2023 as well.

- Good Governance (GG)

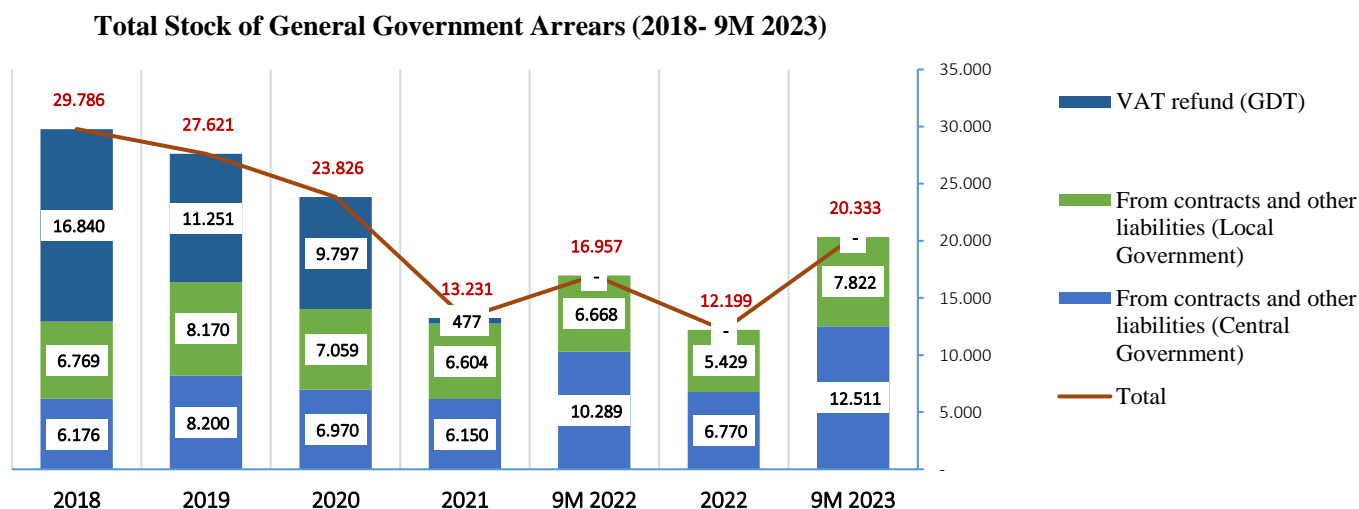
General government arrears as percentage of total expenditures for FY2023 target is set to be equal to or below 2.4% (full completion) and equal to or below 2.8% (partial completion). The expectations until the end of the year 2023, for both of these targets to be met are positive.

- Economic Reform Program (ERP)

The targets of general government arrears as a percentage of total expenditures for 2023 as of (quarterly) are set to be  $\leq 2.5\%$  and  $< 2.4\%$  as an annual target. Quarterly target as of 3M 2023 stood at 1.83%, 6M 2023 at 2.67%, and for the 9-month period of 2023, the quarterly target for ERP stands at 2.91%. By the end of 2023, the expectation for annual target to be met is positive.

Although compared to 9M 2022, there has been an increase in the total stock of arrears, it is worth noting that the targets set at the beginning of the year (PEFA rating, Good Governance and ERP) are well positioned for their fulfillment by the end of the year 2023. In addition, the newly approved Normative Act No. 5 dated 18.10.2023, consists of budget reallocations between programs, mainly in capital expenditure projects, which positively affects the clearance of a large part of the arrears stock, with the aim of meeting the final target for FY2023 of “below 2.4% of total expenditures” as set jointly with EC in this PG. The graph below illustrates the progress of the stock of general government arrears from 2018 up to 9M 2023:

Graph 1: The stock of arrears of the general government, in million ALL



By the end of September 2023, a cumulative stock of almost ALL 20.33<sup>1</sup> billion in arrears has been recorded for the general government units. Specifically:

- Total arrears of the central government are ALL 12.51 billion.
- Total arrears of the local government are ALL 7.82 billion.

Compared to the stock of arrears reported for 9M 2022, it results that:

- The overall level of arrears is about ALL 3.38 billion higher, or an increase by 19.9%.
- Specifically, arrears from the central government have increased by about ALL 2.22 billion, and arrears from the local government have increased by about ALL 1.16 billion compared to the same period a year ago.
- For the 9M period of 2023, as in the 9-month period of 2022, there are no VAT reimbursement arrears registered as they have been cleared.

### PG 1.3

#### **Inform decisions about new state guarantees and on-lending to public entities by a systematic risk assessment.**

The Guaranteed debt stock (disbursed and outstanding), as well as the guaranteed loans signed and expected to be disbursed, constitute the risk of the budget arising from the contingent liability of these guarantees. The possibilities of the guarantees being called are significant and therefore we include additional funds in the relevant budget categories, such as interest expenditures, and debt repayment item, that may be needed to pay if the guaranteed loan obligations are not paid by the borrowers/beneficiaries. Such estimations are usually made based on an historic behaviour of the beneficiaries or their known current financial conditions. Under these conditions, an accumulated obligation of the borrowing entities against the Ministry of Finance and Economy has been created. To enable the collection of these obligations, arising out of both type of instruments, guarantee or on lending, the Ministry of Finance and Economy has completed recently some legal changes in order to engage a specific specialized structure with the collection of arrears. In addition, a strengthened analysis and respective role when issuing new guarantees and new on-lending operations is envisaged, which is expected to have an impact on a better performance of the borrowers towards their undertaken obligations. MoFE is seeking to strengthen the analysis and evaluation capacities of the risks and

<sup>1</sup> Excluding arrears from Universities and Water Supply & Sewage

budget impacts arising out from guarantees and onlendings. Assistance in this regard is intended to be ensured through GDRM programme of the World Bank, which is continuously supporting on the debt management activities, and which is expected to assist also on developing a comprehensive framework for provision of guarantees and on-lending, underpinned by a formalized assessment methodology focused on risk management of potential future portfolio.

## **Policy Guidance 2**

### *PG 2.1*

**Continue measures to increase tax revenue as share in GDP in a growth-friendly way while taking into account the results of a broad public consultation on tax policies.**

The Medium Term Revenue Strategy (MTRS) has been drawn up by the Ministry of Finance and Economy and Albania has started the implementation of the measures foreseen in the Medium Term Revenue Strategy. The draft strategy was consulted over a long period of time with all relevant stakeholders. The implementation of the strategy was postponed from 2020 to 2022 due to: Consequences of the November 2019 earthquake, Covid 19 pandemic situation, and the economic consequences of the Russia-Ukraine conflict. The implementation started from January 1, 2022, after the approval in December 2021 of the "2022 Fiscal Package", mainly with the measures recommended by the IMF in the field of excise duties. Within this package, a number of exemptions from excise duty were eliminated, as well as excise duties were increased for a number of products such as tobacco. In December 2022, the "2023 Fiscal Package" was approved, which contains further measures provided for in the Strategy, and in the first 3 months of 2023, the new law "On Income Tax" was discussed and approved in parliament, which contains a series of measures of this strategy in the field of direct taxes.

During the year 2023, the new law "On property tax" was drafted and is in the process of approval, which is part of the reform of the Medium-Term Revenue Strategy and aims to improve the income from this tax. The implementation of the MTRS strategy in the area of tax policies will continue in the coming years, reviewing taxes on real estate and other sources of income. The implementation of the measures recommended by the International Monetary Fund and included in the Medium-Term Revenue Strategy regarding the tax and customs administration began on January 1, 2022, where the most important achievement was the implementation of the fiscalization system, including - invoicing, as a result of which revenues from Value Added Tax have increased. As a result of the implementation in 2022 and 2023 of the measures (tax policy and administration) provided for in the Strategy, tax revenues in 2023 are foreseen to be 26% of GDP, from 25.2% that resulted in the year. 2019 (the base year for measuring the effects of the Strategy's implementation), or +0.8% GDP growth.

The final objective of the 2022-2026 Strategy is to increase income by +2.5% of GDP until the end of 2026. So, in the coming years 2024-2026, the objective is to increase income by +1.7% of GDP, mainly from the improvement of the tax and customs administration.

### *PG 2.2*

**Complete procedures to fully establish the National Single Project Pipeline (NSPP) and advance the necessary legal amendments to fully integrate PPPs into the NSPP.**

In the end of the year 2022 is approved the Decision of Council of Ministers no.887, dated 27.12.2022 "On public investment procedures". Main changes have been foreseen to provide solutions to the identified problems. In February 2023, the legal base was completed with the Instruction of Minister of Finance No. 4, 20.02.2023, when is determined the financial limit of the full value of the project in accordance with the specificity of the sector, on the basis of which the method and procedure of the project evaluation. According to the DCM for PIM procedures, projects classified as non-strategic and which has a total value of the project below the threshold determined on instruction of the Minister of Finance, are submitted for evaluation and approval only to the Ministry of Finance and Economy. These projects are not part of the NSPP list and the procedures followed for these investment projects for identification, preparation, and approval are simpler. Meanwhile, for all other projects classified as strategic, required depth analyzes for the processes of identification of the project, preparation, submission of documents and evaluation until the final approval.

These projects are submitted for evaluation simultaneously to MFE and SASPAC. Full feasibility studies are required for these projects. For projects over 10 billion ALL (100 million dollars), DCM determines the external review of feasibility studies. The final approval of the new investment projects that will be financed



is done by the MoF only within the process of preparing the PBA. Regarding the form of financing, it is determined that if PPP is considered as an option, clear arguments must be presented to argue this proposal by comparing this option with the standard form of financing. Also, in the content of the feasibility study, all financing options should be presented, argued in detail

For arrears specifically is determined: *“For multi-year budget commitments related to new public investment projects, during their implementation it is not allowed to distribute less than 20% of the full value of the relevant project in the budget of the relevant unit of the central government unit during the first year, less than 30% of the full value of the relevant project during the second year and less than 30% of the full value of the relevant project during the third year, unless otherwise stated in the feasibility study document and new project approved by MTBP 2023-2025”.*

In order to have a proper implementation of DCM 887, the MoF with the support of World Bank organized a Workshop with representatives of line Ministries, during the end of March. The content of the workshop was an interaction between the theoretical part with main changes in new DCM and exercises with concert examples. On July 2023 referring to the determinations of the DCM no 887 “On public investment management procedures” is approved the DCM no. 447, dated 26.07.2023 where is approved the NSPP list. The PIM department is strictly following the DCM procedures for the preparation of MTBP 2024-2026 and the annual budget Low for 2024.

### PG 2.3

#### **Increase spending on education, social protection and health as a percent of total expenditure and issue instructions for data collection on public expenditure on R&D.**

Expenditures for education, health and social protection in nominal values are increasing from 2018 to 2024, presented in the table of expenditures in millions ALL according to government functions:

Sector		2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	AN 2023	2024
Education	In million ALL	44,131	46,208	44,760	46,079	47,914	51,605	55,684	54,150	58,402	62,966	69,016	78,894
	In % GDP	3.3%	3.3%	3.1%	3.1%	3.1%	3.2%	3.3%	3.3%	3.1%	2.9%	3.0%	3.2%
Health	In million ALL	35,391	41,881	39,475	41,802	45,352	49,004	51,182	51,590	63,570	63,792	67,291	72,247
	In % GDP	2.6%	3.0%	2.8%	2.8%	2.9%	3.0%	3.0%	3.1%	3.4%	3.0%	2.9%	3.0%
Social Protection	In million ALL	122,891	131,356	131,743	139,230	144,066	151,149	158,954	177,760	180,724	198,087	205,884	238,027
	In % GDP	9.1%	9.4%	9.2%	9.5%	9.3%	9.2%	9.4%	10.8%	9.7%	9.3%	8.9%	9.8%

Source: Ministry of Finance and Economy, 2023

As a percentage of GDP, the sectors maintain the average levels of financing received over the years. For the year 2024, the increase in the financing of the education and health sector is significant as it includes the salary increase policy, which foresees a significant increase in average salaries for teachers and medical staff. For the expenses related to the function of Research and Development, we are working with INSTAT for the design of the methodology for the collection and processing of data for public expenses for Research and Development.

## **Policy Guidance 3**

### PG 3.1

#### **Continue to carefully assess and analyse price developments, including by publishing additional indicators of underlying price pressures, and ensure a sufficiently tight monetary policy stance to preserve price stability in the medium term, including by further tightening monetary policy, if needed.**

Bank of Albania remains committed in achieving and maintaining price stability as its main monetary policy objective. Rising inflationary pressures in 2022 have necessitated gradual normalization of monetary policy. The BoA, which operates an inflation-targeting regime coupled to a free-floating exchange rate regime, increased the policy rate from an all-time low of 0.5% to 2.75% in 2022, while communicating to the market its commitment to bring inflation down within a reasonable timeframe. Bank of Albania continued to raise rates in 2023 by a total of 0.50 percentage points to 3.25% to address persistent domestic inflationary pressures. Headline inflation is expected to gradually decline towards the Bank of Albania's target of 3% by mid-2024, conditional upon further withdrawal of monetary stimuli.

Bank of Albania uses several underlying measures of inflationary pressures to calibrate its policy. Currently it is publishing one measure of core inflation every month on its website. In order to improve understanding of its policy and anchor inflation expectations, it plans publishing other measures of inflation during 2024.

### *PG 3.2*

**Strengthen further the reporting and risk management frameworks across the banking system to ensure an accurate reporting of asset quality, to further reduce obstacles to NPL resolution and to reduce data gaps in particular as regards the real estate sector.**

As at end of November 2023, the NPL ratio stood at around 5.1%, close to lowest level in more than a decade. Since the implementation of the NPL resolution strategy in 2015, the NPL ratio has dropped significantly freeing bank capital and supporting credit growth. Despite its preference for a low NPL ratio, BoA does not have a targeted threshold as it would be unrealistic in a constantly changing economic and financial environment. With the implementation of IFRS 9 in the near future, data related to nonperforming loans, including the NPL ratio, will be better aligned with international standards and more comparable to data from other jurisdictions. Moreover, experience gained over the last years with the management of NPLs, has shown that having in place effective NPL resolution frameworks is important not only to reduce NPLs from a high level but also to help prevent their accumulation in the first place. In this regard, the government will actively engage in resolving the bailiff deadlock, thus further reducing obstacles to NPL resolution.

As regards the reduction of data gaps in the real estate sector, the Supervisory Council of the Bank of Albania approved on October 4, 2023 the regulation no.44 “For reporting of data, identification and monitoring of indicators for loans and investments in real estate sector”. The regulation determines rules for collecting and improving the data quality on exposures of banks related to lending and investments in real estate, and also provides Bank of Albania with the right to use some of these indicators related to standards of real estate loans, as instruments of macroprudential policy to address systemic risk.

In more detail, the regulation determines:

- concepts and terms for the monitoring and control of banking sector exposures in the real estate market (lending or investments, flows or stock), including through the use of relevant indicators like loan-to-value, debt-service-to-income etc.;
- the processes banks must follow to collect, organize and report relevant data on such exposures;
- the right of Bank of Albania to use some of those indicators as macro-prudential instruments in order to apply quantitative and qualitative limits on such exposures;
- the way Bank of Albania determines and announces these limits.

The regulation approximates fully the relevant recommendation of European Systemic Risk Board, no ESRB/2016/14, as amended with the recommendation ESRB/2019/3, when it comes to such exposures for the banking sector. Given that the banking sector dominates the exposures of the financial system in the real estate sector, we believe that the abovementioned regulation contributes to address this segment of the recommendation to a large extent. The regulation entered in force on October 28, 2023 (15 days upon its publication in the Official Journal) and banks will start reporting in accordance with it starting from March 2024.

### *PG 3.3*

**Continue the implementation of measures aimed at promoting saving and borrowing in domestic currency, limit unhedged lending and the use of foreign currency in the real economy, with all signatories of the Memorandum of Cooperation taking appropriate action.**

The Memorandum of Cooperation tasks BoA with the obligation to follow developments in key indicators of the euroization and dollarization levels of the financial system and financial transactions including payments, loans and deposits of the general public. The analysis of the financial indicators is published twice a year on BoA's website. As per the latest report, published on August 2023, BoA observes an increase in the relative share of liquid assets to short-term liabilities in foreign currency, which suggests a decrease in liquidity risk from foreign currency activity, as well as a decline in the share of foreign currency loans to total outstanding loans. The performance of foreign exchange financial indicators expressed in national currency was affected by the significant fluctuations in the lek/Euro exchange rate and the resulting appreciation of national currency caused by a strong increase in foreign currency inflows from tourism and foreign direct investments over the past couple of years. The growth in foreign exchange inflows brought about a considerable increase in time and demand foreign exchange deposits, and resulted in a higher share of foreign exchange deposits to total

deposits. Although BoA has not undertaken any new measures aimed at promoting the use of national currency since 2018, it remains committed to continue its efforts, and it welcomes any measures in the remit of the government and other national agencies in this regard.

## Policy Guidance 4

### PG 4.1

**Develop business support services to create a business environment to nurture SMEs' greening transition, further accelerate SME digitalisation and e-commerce, offer robust insolvency prevention policies to SMEs at risk, and ensure a coherent and predictable application of the property law.**

In the framework of the National Strategy on Intellectual Property 2022-2025 GDIP has undertaken a legal reform in the industrial property field, drafting a separate law for each object of industrial property.

Currently the two draft laws have been prepared, concretely the draft law on Trademark and the Draft law on Patents and Utility Model. It was submitted the final draft and the whole package at the Ministry of Finance and Economy for the two draft laws. We are looking forward that the Ministry of Finance and Economy introduces them for public consultation process.

- **Establishment of the Consultative Council for SMEs**

The expansion of the range and quality of business development services should help to improve the competitiveness of SMEs. The content of the offers is based on the needs of the companies, which arise from the market situation as well as current trends. This primarily includes the topics of export promotion, digitalization and green business development.

However, in order to develop and further strengthen these business services in a structured and systematic manner, a Consultative Council for SMEs will be set up in 2023, which will give opinions and advice for SME support, also with the involvement of representatives from the private sector, financial institutions as well as representatives of chambers and business associations.

- **Scoping study on Green economy and Green Dialogue**

With the support of GIZ project (Proseed) a study was prepared "Green Economy Scoping Study Albania". The study identified two key strategic sectors for greening Albania's economy. The Selected Sectors are:

- i. **Renewable Energies (focus solar energy):** The green transition concept in the energy sector refers to shifting from fossil fuels to renewable energy sources as primary energy source. There is plenty of evidence that solar energy contributes to the clean energy grid, does not emit pollutants, and diversifies clean energy by reducing energy dependency from imports and price fluctuation. Moreover, the green transition shall include in parallel energy efficiency measures, such as using smart grids and energy-efficient appliances to reduce overall energy consumption.
- ii. **Textile / Garment / Shoe manufacturing:** It is an internationally connected and well-organised sector with a high level of formality and many SMEs working in the sector and applying international standards. This subsector of the manufacturing industry is employment-intensive, allows a large outreach, and allows the possibility to work along relatively well-organised supply chains to promote a just transition. There is equally a high potential to localise activities and thus contribute to branding the Albanian industry. In terms of accelerating the green transition in the textile sector, certain actions are needed to reduce the use of harmful chemicals and dyes in textile production and the promotion of circularity in textiles by reducing waste and using more durable and sustainable materials.

Recommendations of the study: Transitioning to a Green Economy in Albania offers a range of economic co-benefits including increased sector competitiveness, access to higher value markets, green jobs, attracting FDI and donor support. However, it's not an automatic process. It requires concentrated efforts by all stakeholders in terms of:

- developing and implementing the right policy mix to incentivize investments in green technologies,
- building the necessary public infrastructure,
- providing technical and financial assistance to the private sector adopting green business models and sustainable production methods.

- **Implementing "Digital and Green solutions for MSMEs" (Connect IT, PREMA, ERP/CRM**

**tools) 12/2022 – ongoing**

Profitable Resource Efficient Management: PREMA is a methodology that motivates companies to realize one of the “four benefits”:

- Increased economic efficiency
- Improved environmental and climate performance
- Enhanced organizational capacity
- Effective management of risks and social issues
- 25 businesses completed successfully at least 1 challenge
- 14 trainers are now certified and available on the Albanian market

Connect IT initiative (in cooperation with EU for Innovation component): Connecting students and MSMEs to digitize business processes (e.g. websites, apps, digital online presence, CRM, e-commerce, etc.)

During Cycle 1 of Connect IT 2.0 (autumn term 2022):

- **26 MSMEs** implemented successfully digital measures (of which 18 were CoSolve 19 beneficiaries)
- **Over 110** students from 2 major public universities (AMU Durres, FEUT of Tirana University) were involved in the project

During Cycle 2 of Connect IT 2.0 (spring term 2022):

- **25 MSMEs** are currently integrating digital solutions
- **Over 120** students from other 4 universities (Tirana Polytechnic University – FTI, Polis University, Epoka University and Metropolitan University of Tirana) are involved
- Implementing the Financial Agreement: Grants for green and digital innovations 11/2022 – ongoing

The Financial Agreement for the establishment of the ProSEED 2.0 Project Implementation Unit (PIU) was signed in 11/2022 between the Ministry of Finance and Economy and GIZ, as the implementing agency for the project.

Through the Financial Agreement, 450,052.70 euros will be managed by the Project Implementation Unit (PIU) ProSEED 2.0 in the MFE for grant support to businesses. Grants will be given for innovative entrepreneurs and existing start-ups with focus on the introduction of green, resource efficient and digital improvements. The initiative aims for the provision of up to 75 grants to entrepreneurs. PIU has been formally set up in the MoFE and it is working on the first call for the grants.

#### E-Commerce

A working group for drafting the Action Plan for electronic commerce has been set up in 2022 by order of the MoFE. Representation is from different institutions. The working group has several tasks.

The draft structure of the facilitating program has been prepared, agreed by the electronic commerce association. Currently, comments, suggestions, and contributions are being gathered with regard to the drafting of measures of the Action Plan.

- **Start the "Export readiness / promotion programme" (according to the "Albanian Export policy 2023-2027)**

MoFE is working on drafting the Export Program 2024-2027 with the collaboration and strong consultation with private and public stakeholders. The work for the export program should continue and follow the consultations to be enriched with recommendations until the finalization.

#### **Cosolve programme Key Results (until March 2023)**

- 707 participants in advisory services (about 35% are women-led businesses)
  - 299 businesses received a CoSolve grant (i.e. 42% of the coaching participants)
  - 84% of the MSMEs expressed that the business adjustments helped to stabilize the business (Rd.1 beneficiaries, N=198)
  - 89% of the MSMEs increased employment since participating in CoSolve-19 (656 persons newly or again employed)
- **Capacity building of Directorate responsible for the Business Development in the Ministry of**

## **Finance and Economy**

Regarding the Directorate responsible for the Business Development in the Ministry of Finance and Economy the New Structure of the MoFE has been approved and from April 2023 the Directory of Business Development Policies has three Sector, The sector of Competitiveness, sector of Programs and Projects in the Economic Development Field and the Sector of Analyses, Monitoring and Promotion. The total number of the staff in the Business Development Policies Directory is 10 employees. These new configuration of the structure gives another breath to the business promotion policies.

Representatives of the above mentioned department in MoFE, through the support of the German Government GIZ programme are planning to organize a study tour in October 2023 for the policy makers and the subordinate institutions (including AIDA and other chambers of commerce) to the German Capital Region, with the main objective to strengthen capacities for designing coherent structural transformation strategies and corresponding policy measures. The participants will be familiarized with relevant strategy design and implementation processes to exchange experience, build relations with German industrial policy practitioners, and identify lessons learnt based on concrete examples.

### **• Training to deliver "Aftercare service" in AIDA**

In order to maintain improve and extend the Aftercare Network and Investor Servicing Program at the local level, 15 staff members of AIDA received training sessions to develop partnership with the municipalities of Vora, Kavaja and Kamza and to provide investment advisory to 35 businesses of the selected cities. The training strengthened the capacities and thus fed into the reform efforts of the Albanian Government.

In the period 2022-2023, with RisiAlbania contribution, a total of 612 businesses (42% owned by women) from the three sectors of Agribusiness, Tourism and ICT benefited from access to new services, standards, and new markets. Of these, 80 businesses were certified to new international quality standards.

In ICT, 361 businesses benefited from e-commerce services, digital enterprise solutions, and cybersecurity services. In tourism, 101 businesses benefited from quality standards services, product development and marketing services. In Agribusiness, 150 businesses benefited from partners services of certification by quality standards, traceability, export marketing, and contract farming.

As a result of these services, businesses in the three sectors increased sales net additional income by 756,296 Euro and created 766 new jobs (427 women).

### “Business to Business” Platform

The Business to Business (B2B) platform is an active network that offers the opportunity for successful collaborations and investments between businesses. This platform is a facilitating mechanism that creates opportunities for fruitful collaborations and to expand contacts in the business world.

On the B2B online platform of the AIDA website, as of 18 September 2023, 1092 profiles of Albanian companies are published, with the aim of making the companies visible to potential partners for doing business.

### “Made in Albania” Campaign

“Made in Albania” is the promotional campaign of the Albanian Investment Development Agency (AIDA), in support of Albanian businesses and “Made in Albania” products. The campaign was launched on July 2020 and up to 18 September 2023, 260 local products are published and promoted on the institution’s website and social networks. As part of the initiative to promote “Made in Albania” products, the Albanian Investment Development Agency published “Choose Local”, the first catalogue of “Made in Albania” products.

### Publication of informative brochures

During 2023, AIDA has published two new guides, respectively:

1. The internationalization of Albanian MSME-s (Certifications) Guide
2. A short guide on fair participation for Albanian MSME-s

### National and International Fairs

One of the functions of AIDA is to support and facilitate participation in national and international fairs for Albanian MSMEs. During 2023, AIDA participated in the following fairs:

#### *National Fairs:*

- **“Agriculture Days” Fair, 27-29 April 2023, Lushnje, Albania.**
- **“Food and Drinks Expo 2023” Expo City, 23-25 May 2023, Tirana, Albania.**

#### *International Fairs:*

- **“Food Expo” Fair, 18-20 March 2023, Athens, Greece.**
- **“MACFRUIT Expo”, 03-05 May 2023, Rimini, Italy.**
- **“ISPO MUNICH FAIR 2023”, 28 – 30 November 2023, Munich, Germany**

#### The Access to Finance Platform

AIDA, in the framework of “Increasing access to finance for MSMEs” (BIDS 2021-2027), with the support of the EBRD has created the platform "Access to Finance" to serve MSMEs Albanian companies, which want to expand and invest in their activity by taking advantage of the financial opportunities offered by the market, with grants, loans or other financing initiatives.

The platform “Access to Finance” was launched on May 2021 and it is hosted under the AIDA domain. In this platform MSMEs can find updated information on financial instruments that are available to support them from the Albanian government and donors. Updated information on various calls for applications from Albanian SMEs are maintained and managed by AIDA ([www.aida.gov.al](http://www.aida.gov.al)).

During 2023, the platform was enriched with new functionalities that include:

- A clear division between grants and “other financing schemes”
- A dedicated space for experts where applicants can easily find and contact the expert they need
- A dedicated space for success testimonials
- A dedicated space for comments / suggestions
- 

#### *Platform Statistics*

The platform is updated on a weekly basis and there is an average of 3-4 calls per month published. Typically, calls that focus on actions related to innovation, technology and education are the most visited. As of 18 September 2023, 116 calls for application have been published on the platform and the main web-page has been visited a total of 61,408 times.

Most frequent users come from Albania, the United States of America, Italy, France and Kosovo. The predominating age of users is 25-34 years old (33.5%) and 18-24 years old (27.5%). There is no significant gap in terms of gender, with 54.15% of users being male and 45.85% female.

#### *PG 4.2*

#### **Enhance energy resilience and diversification towards green energy transition to implement the Green Agenda, notably the electricity, energy efficiency and climate acquis.**

Albania has already fully transposed electricity market rules stemming from the EU Third Energy Package and has reached a good progress in their practical implementation through legislative developments, sectoral reforms, and gradual opening of the electricity market. The Transmission and distribution system operators are fully unbundled and act independently from any market interests in electricity production and/or supply. Competitive balancing and ancillary services market is already in operation as organised by the transmission system operator OST sh.a pursuant to ERE's adopted market rules. Extending the scale of market-based electricity trading is expected to increase the so far limited liquidity thereof. All electricity consumers in Albania are eligible to choose and switch their supplier. The gradual opening of the electricity market is expected to result in full market opening in 2024. The Albanian power exchange ALPEX established by the transmission system operators of Albania OST and Kosovo went live on 12 April 2023.

Albania is getting ready for transposition and implementation of the new electricity market design elaborated under the EU Clean Energy Package and electricity network codes, addressing internal electricity market rules – i.e., Directive 2009/944, Regulation (EU) 2019/943, and Regulation (EU) 2019/941 will be fully transposed by 2024.

The share of renewable energy sources in Albania's energy consumption reached 45.01% in 2020, exceeding the country's target of 38%. Albania is one of the three Contracting Parties of the Energy Community, which achieved its 2020 renewables target. The country continues to be a frontrunner when it comes to implementation of auctions for renewables projects.

The Renewable Energy Sources Law (RES) aligned with the Renewable Energy Directive (EU) 2018/2001, was adopted by Albanian Parliament, in March 2023 (Law no. 24/2023, dated 23.03.2023, "*On Promoting the Use of Renewable Resources*"). The new Law brings a series of innovations to the electricity sector, including that a renewable energy community has the right to produce, consume and sell renewable energy, and offer aggregation, including power purchase agreements. It abolishes the feed in tariffs support schemes, so that all support measures will be granted via competitive procedures. Current legal and regulatory regime in the field of renewable energy sources is partially aligned with Directive (EU) 2018/2001.

Law no. 24/2023 removed support schemes in the form of administratively feed-in tariffs for small renewable generation units above 2 MW for solar photovoltaic and wind power plants above 3 MW.

Support to priority producers shall be granted through a competitive process and market-based support schemes. Support for the generation of electricity from renewable sources may take the form of: a power purchase agreement (PPA), a contract for difference (CfD) or a contract for premium (CfP).

MIE may decide that the competitive process is technology-neutral or technology-specific based on the longer-term potential of a particular technology, the need to achieve diversification or energy resources, network constraints and grid stability, and system integration costs.

The concept of renewables self-consumers established in Albania by Law no. 24/2023 is expanding the empowerment of final customers.

Renewable energy community, established by the Law no. 24/2023, shall have the right to: produce, consume, store, share, sell renewable energy and provide aggregation, including through renewables power purchase agreements; access all suitable energy markets, directly or through aggregation, in a non-discriminatory manner, and support as a priority producer in accordance with Law no. 24/2023

Renewables self-consumers have a maximum capacity of 500 kW. They have the right to generate, consume, store and sell their excess production of renewable electricity, individually or through aggregators, including through bilateral agreements, electricity suppliers and peer-to-peer trading arrangements.

The compensation scheme of renewables self-consumers based on a **net-billing methodology** from 1 January 2024.

Albania joined the Energy Community initiative to establish a regional system for guarantees of origin. The national electronic registry for guarantees of origin in Albania was created is operational, following establishment by ERE.

Albania progressed with the implementation of energy efficiency requirements for buildings, training of experts for energy audits and issuing of building energy performance certificates.

Energy-efficiency incentives are in place, including a household subsidy scheme for installing solar water heaters and improving energy efficiency for educational and public buildings. In October 2022, the Government introduced mandatory 15% energy saving targets for the public sector while Tirana Municipality is also supporting local residents with grants up to 50% of the insulation costs for their homes. Several implementing measures have been adopted in accordance with the Energy Efficiency First principle.

Albania has adopted a first version of its National Energy and Climate Plan.

#### PG 4.3

**Implement within 2024 the adopted climate and energy targets based on the National Energy and Climate Change Plans, as part of the 2030 decarbonisation roadmap, and ensure that the Renewable Energy Operator is operational by end 2023, in line with the renewables law that was adopted on 23/3/2023.**

National Energy and Climate Plan 2020–2030 has been approved by the Council of Ministers (CoM no. 872, dated 29.12.2021) and, amongst others, establishes Albania's targets and measures for the use of renewable energy sources, energy efficiency and decarbonisation up to 2030. The Energy Community Ministerial Council in December 2022 adopted the 2030 energy and climate targets. These new targets will be integrated into an updated NECP, planned to be enacted by 2024. In the revised NECP, it is aimed to reduce final energy consumption by 9.4% (cf. 8.4%), to increase the share of renewable energy in final energy consumption to 59.4% (cf. 54.) 4%, while GHG emissions reduction target remains at 18.7%.

Albania reached its target of a 39% share of renewables in total final energy consumption for 2022, based on the national consolidated renewable energy action plan (NCREAP). Implementation for the two solar photovoltaic (PV) farms with a total installed capacity of 240 MW is ongoing (Karavasta 140 MW and Spitalla 100 MW). An auction on wind farms, with an installed capacity of 10 MW to 75 MW. The first phase contracts

were awarded in June 2023 while in July 2023 the last phase of economic offers took place and three bidders have been awarded a total of 222.5 MW in capacity.

#### Participation in the European Program – Single Market Program

The Ministry of Finance and Economy is in the process of finalizing the Agreement between the European Union and the Council of Ministers of the Republic of Albania, for Albania's participation in the Union's "Common Market Program for the period 2021-2027".

The Single Market Program (SMP) 2021-2027 is funded by the EU to help the Single Market reach its full potential and ensure Europe's recovery from the COVID-19 pandemic.

The total cost of Albania's participation in the program is EUR 487,322

## Policy Guidance 5

### PG 5.1

**Encourage cooperation between innovative businesses research organisations, and academia, as foreseen in the Strategy on Business and Investment Development 2021-2027, by continuing to increase science and research funding, and by creating the conditions for the development of business incubation programmes.**

Increasing the efficiency and sustainability of the system for supporting integrated scientific research at the international level, creating an environment that facilitates and encourages the mechanisms of interaction and technology transfer for cooperation between the research community, economy, innovation and public institutions, as well as promoting the culture of science and innovation in education to ensure a didactic approach with an emphasis on research practices and projects, are the medium and long-term goals (2024 - 2030) of the policy in the field of science, technology and innovation.

The policy aims to build capacities for the generation and transfer of technologies through the realization of specific objectives (goals), which are:

- Increasing cooperation between Higher Education Institutions, central and local government institutions, the business sector and civil society through the expansion of research and development of joint projects. (Quadruple Helix Model);
- Improving mechanisms and increasing support for international technology transfer (TNT).
- Increasing the role of science and innovation in technological development;
- Strengthening and increasing the capacities of technology transfer centres to advance knowledge in a certain field or to further develop technology.

This policy objective reflects SDG 9 “Industry, Innovation and Infrastructure - according to which countries are committed to building a resilient infrastructure, promoting sustainable and inclusive industrialization and fostering innovation.” In particular, this goal reflects goals 9.5 of SDG 9, in the context of the Sustainable Development Goals 2015 – 2030 to encourage the maximization of scientific research, the improvement of the technological capabilities of industrial sectors in all countries, in particular developing countries, by including, by 2030, encouraging innovation and significantly increasing the number of scientific researchers and public and private research and development spending.

Increasing cooperation between Higher Education Institutions, central and local government institutions, the business sector and civil society through the expansion of research and development of joint projects. (Quadruple Helix Model) continues to remain a challenge for Albania. However, during the 2020 -2022 period, there have been a number of efforts aimed at creating bridges of cooperation between the four main actors involved in the scheme. Thus, during 2021, the implementation of a project for capacity building in higher education has begun within the framework of the Erasmus+ program entitled "University to Society Intermediaries in Albania: Co-Production of knowledge and research that matters" (USIA Project). This project brought together universities, civil society organizations, public institutions and business organizations to improve an enabling higher education environment that supports university collaboration with society in order to co-produce knowledge and research with an impact not only academic but also applicable to Albania's development in light of European integration and numerous current challenges. At the same time, the project aimed to strengthen the institutional capacities and human resources in universities in Albania through the creation of the Transfer of Knowledge and Innovation Brokerage that connects the university with business, government, civil society and media in an institutionalized and sustainable way. Also, the project created and expanded a Quadruple Helix network and online platform which would provide networking, mediation,



capacity building, support and evaluation for academic and non-academic actors. The project prioritized women in academia, research and innovation.

The policy framework in the higher education sector encourages the growth of cooperation and the development of joint projects between the four actors (HEI, business, civil society and government) within the promotion of the Quadruple Helix Model in the field of scientific research, technology and innovation. Until now, within the framework of cooperation according to this model, as a product of the project, 5 knowledge transfer and innovation centres have been established or strengthened in 5 HEIs; 5 university-business cooperation pilot projects have been financed and implementation has begun, as well as 5 pilot laboratories have been set up.

However, it remains a challenge to achieve the most effective and productive cooperation between these actors, based on several factors such as: infrastructure and funds for research are limited; there is a lack of incentives to cooperate with businesses; there is a general feeling of mistrust regarding the quality of scientific research as well as limited capacities to absorb innovation, lack of knowledge of all actors regarding funding mechanisms and opportunities, etc.

In 2023, NASRI opened the first call for joint academia-business projects in the field of innovation. By Decision No. 11, date 21.07.2023, "For the Approval of the Financing of Winning Projects of Technology and Innovation Coming as Cooperation of Universities with Business/Industry, for the Year 2023", of the Board of Administration, 10 joint projects were founded (total amount EUR 170,000).

The measures foreseen in the new National Strategy for Research, Science and Innovation 2023-2030 (at the meeting on September 20, 2023, the Council of Ministers decided to approve the "National Strategy for Research, Science and Innovation 2023-2030 and action plan for its implementation")<sup>2</sup>, for the realization of this purpose and its specific objectives are:

- Creation of innovative schemes for the co-financing of scientific research programs that strengthen cooperation with the business sector to solve current social challenges;
- Informing and familiarizing all interest groups with financing mechanisms and instruments;
- Promotion of scientific research models in the participation of joint projects (Quadruple Helix model);
- Drafting of guidelines (including protocols and procedures) for joint projects;
- Strengthening the capacities of HEIs, business representatives, central and local institutions for the design of joint projects;
- Strengthening the capacities of the evaluation structures of scientific research projects in order to represent the business in these structures.

The Ministry of Finance and Economy is the Lead Institution of the EU4INNOVATION PROGRAM 2-nd PHASE (2023-2026), financed by: IPA III 2021 Financial Agreement (10 mil Euro), other donors: GIZ (1.2 mil Euro), SIDA (0.55 mil Euro)

Other Stakeholders: Minister of State for the Protection of the Entrepreneurship; Ministry of Education & Sports, National Agency for Strategy Research & Innovation; Minister of State for Youth and Children; Prime Minister's Office; SASPAC.

EU EU4INNOVATION PROGRAM 2-nd PHASE will be focused on: - Capacity development with a focus on the ecosystem of start-ups and innovation, - Improving access to funding for start-ups and innovation support organizations through grants, - Promoting and implementing of the Quadruple Helix approach and Horizon Europe Program Promoting Albania as an ecosystem of start-ups and innovation and a good destination for bringing together international and local innovators and entrepreneurs, - Establish the first European Institute of Innovation & Technology Community Hub, in Tirana. This project is under implementation.

## PG 5.2

**Conduct a Youth Guarantee pilot and analyse its performance, and in parallel review and adjust the functioning and operational structure of the National Agency for Employment and Skills (NAES) to accommodate the service delivery of the Youth Guarantee and develop a set of quality offers.**

Preparations for the Piloting of the Youth Guarantee Scheme based on the EU model to help young people integrate into the labour market (focused on NEET) have started. The National Implementation Plan for the

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<sup>2</sup> <https://www.kryeministria.al/newsroom/47343-2/>

Youth Guarantee Scheme has been approved by the Council of Ministers. The National Youth Guarantee Implementation Plan 2023-2024 has been approved by the Council of Ministers, and it is foreseen that a pilot phase will be carried out in 2023 and further to launch it throughout the country in the following years, supported by the EU program of, IPA III. In this context, the improvements, and changes in law 15/2019 "On the promotion of employment" that were considered necessary for its implementation were approved.

The piloting of the Youth Guarantee scheme will take place in three regions, Tirana, Shkodra Vlora in 2023-2024. Meanwhile, the NAES, with the support of the EU-IPA project for Social Inclusion, has trained the staff of the employment offices for the pilot. For the pilot phase, 100 million in ALL have been made available from the State Budget.

In the meantime, MFE and NAES have undertaken a series of measures for the start of piloting.

- Approved the legal basis where the Youth Guarantee is included;
- NAES has designed the 2023-2024 youth guarantee pilot plan;
- The "Youth Guarantee" website was designed and populated;
- A statistical program has been designed for monitoring the piloting phase;
- The operational document for staff training for piloting the Youth Guarantee has been designed;
- Office staff in the three selected regions were trained;
- Approved a traineeship program.

The pilot plan defines all the phases and the contribution of different institutions, for the development and coordination of, employment, education and social policies for young people, aiming at removing barriers and creating opportunities for young people to enter the labour market and have a successful professional development.

This will be done through four interventions:

1. Mapping - Periodic collection of more detailed information on economic and social conditions and the educational path of young people.
2. Contacting - Contacting young people is the process of identifying, connecting and involving them in the environments where they are located, through the provision of personalized programs, in cooperation with non-governmental organizations, schools and institutions at the local level.
3. Preparation - The preparatory phase begins with the registration of young people as unemployed jobseekers and the determination of NEET status and ends with the concrete launch of the offer of employment, education or training, which are determined in advance.
4. Offers - The Youth Guarantee foresees four possible paths for young beneficiaries: Employment and self-employment; Education; Continuous training and Traineeship, according to the Youth Guarantee Scheme.

• Cooperation with institutions and partners

1. The identification of young people will be carried out through: Employment Services System; "Youth Guarantee" portal; Local Networks (young people from NE, State Social Service, School Dropouts); Contacting through NGOs; INSTAT.
2. Contacting and activation will be done through: Employment Office; Local Youth Councils; Youth Guarantee Offer; NGOs.

The employment service and giving the offer after the first two stages will be done through:

- Interviewing;
- Designing the Individual Employment Plan;
- Provision of Information on the Labour Market and consultation of the Employment Portal [puna.gov.al](http://puna.gov.al);
- Counselling for employment/Career Orientation;
- Referral or Integrated Case management (mainly for special groups);
- Providing Soft Skills and Digital Skills;
- Identifying and providing quality offers to ensure the exit of young people from the Youth Guarantee Scheme.

### PG 5.3

**Use the outputs of the Labour Market Observatory to improve the labour market relevance of vocational education and training (VET), invest in its quality and ensure cooperation with the private**

**sector; focus on building skills of youth and adults, with a particular focus on digital skills to support the expanding communications and technology sector.**

The Labour Market Observatory was created through cooperation with UNDP and is being consolidated. The Observatory collect, process and analyse administrative data generated by the General Directorate of Taxes and the National Agency of Employment and Skills. The observatory is currently processing and displaying data by occupation, gender and region.

This instrument has started to generate signals on the labour market, showing an improvement in the situation, as there has been a continuous increase in the number of persons employed in the tax office or persons registered as followers of professional practices. The data have given signals for an improvement in the labour market environment as well as an increase in formalization. This instrument, which continues to be developed and improved, is expected to be fully managed by the public institutions responsible for the labour market.

With reference to labour market data, such as the observatory or other instruments such as the tracking of VET graduates/certificates, the Albanian government, MFE and NAES have recently undertaken some policies that aim to address the needs of the labour market for skills. In this context, at the beginning of 2022, based on the requirements of the regional labour market, a new employment promotion program (ALMP) related to the provision (through outsourcing) of advanced training in the field of ICT and mainly programming has been drafted. This program supports unemployed jobseekers with 100% fee coverage and jobseekers with 50% fee coverage. This program began to be implemented in 2023 and has been quite successful. During January-October 2023, 953 jobseekers and 126 unemployed jobseekers attended this program.

Also considering the limited digital skills of a significant part of the registered unemployed job seekers, NAES through public vocational training centres is implementing the digital curriculum (short-term course).

This course is offered free of charge to unemployed job seekers. The 'Digital Competence' curriculum deals with the 5 basic digital competencies according to the EU Digital Competencies Framework 2.0. It is divided into 2 levels and serves all citizens, job seekers who want to develop their knowledge in the field of information technology. Until October 2023, about 1875 unemployed jobseekers were trained with this course. Referring to the dynamics of the labour market, the high demand of businesses for qualified workforce and the very positive results of the employability of graduates from vocational schools, an aggressive awareness campaign is currently being developed to increase the number of enrolments in vocational secondary schools. At the beginning of 2023, with Order No. 23, dated 27.01.2023, an inter-institutional working group was set up, with representatives from MFE, MES, NAES and General Directorate of Pre-university Education, which aimed to identify challenges and increase participation in Vocational Education.

Also, during 2023, in order to increase the opportunities for registration in the Vocational Education schools, the Order on the transfer of students in the pre-university system was amended, in order to enable the transfer of students from gymnasium to vocational educational schools.

It is intended to have a sustainable increase in registrations in VE, year after year, as one of the ways to fill the gap between the demands of the labour market and the workforce.

Also, during 2023, another initiative was undertaken that aims to increase the visibility and attraction of Vocational Education, such as the establishment of the network of professionals.

In May 2023, the official website for the first network of professionals in Albania was designed. AFPro is a platform that brings together students, teachers, entrepreneurs and businesses, young professionals and policy makers, in a strong and sustainable community.

In June 2023, a page dedicated page for VET was created <http://aftesi.al/>. This official page has been created to help all students who wish to receive detailed information about VET in Albania.

## **Policy Guidance 6**

### *PG 6.1*

**By 2024, establish a mechanism for the annual indexation of the 'Economic Aid' benefits to ensure their adequacy based on the assessment carried out.**

The establishment of the mechanism for the annual review of the benefit of economic aid is defined as one of the priority measures in the document of the National Strategy for Social Protection 2024-20230, which is expected to be approved in January 2024.

### *PG 6.2*

**Ensure sustainability of the newly created services and encourage the creation of new services within the increase of the allocation to the National Social Fund, especially in the municipalities offering the least number of social services and with lower resources.**

The total fund allocated in the framework of SF, within budget year 2023 is ALL 300,000,000 (34 social services in 33 municipalities (12 new services and 22 existing social care services, already funded during 2020-2022) and 15 specialized services in 7 regions). Municipalities without any social care services or with lower financial resources continued to be prioritized during the assessment process. In the Medium-Term Budget 2024-2026, within the Social Care Program, the Social Fund is expected to increase by 7% in 2024, financing at least 12 new social services.

*PG 6.3*

**Continue the cooperation with NAES on the 'Economic Aid' Exit Strategy to refer beneficiaries to the services offered by NAES, and in particular analyse and address the reasons for refusal to take on offers of employment or training.**

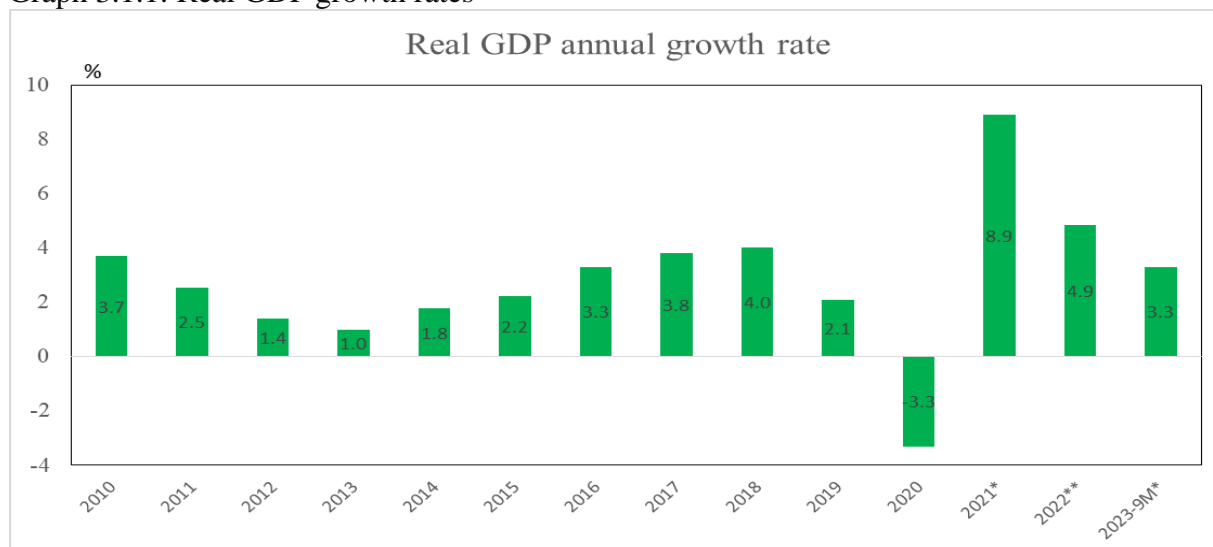
The implementation of the Exit Strategy is continuing with the strong cooperation with NAES. State Social Services updated all the profiles of the working age individuals and refer to the NAES. From January 2023, 3050 individuals have been employed and registered in vocational training.

### 3. MACROECONOMIC FRAMEWORK

#### 3.1. Recent economic developments

The Albanian economy has continued to expand in the first three quarters of 2023. Average growth was 3.3%. This positive in economic growth momentum has remained unabated by the challenging international environment and tighter monetary conditions both in the international and domestic market. While growth rates have resulted weaker compared to last year, they remain closer to the potential growth rate of the Albanian economy.

Graph 3.1.1: Real GDP growth rates

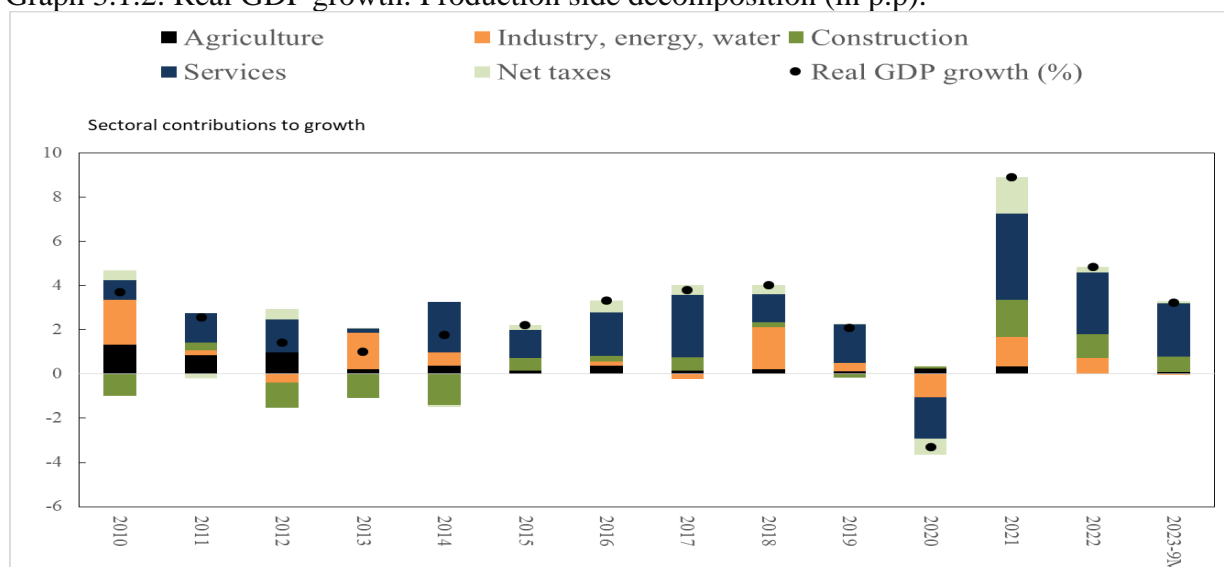


Source: INSTAT. \*Semi-final data. \*\*Preliminary data.

“Services” were the main driver of growth in the first three quarters of 2023, contributing by 2.4p.p to the total growth rate. Other sectors that contributed positively are “Real estate” and “Public administration and defence”. Overall services contribution to growth resulted slightly lower to total compared to last year as a result of a lower growth rate in “Trade, transport, accommodation and food services”.

The production industries contributed by about 0.7p.p to economic growth during the same period. The “Construction” sector was the main driver within these industries. On the other hand, industry has consistently posted negative contributions from mining and manufacturing reflected in lower goods exports. “Agriculture” contribution to growth was negligible.

Graph 3.1.2: Real GDP growth: Production side decomposition (in p.p).



Source: INSTAT. \*Semi-final data. \*\*Preliminary data.

Table 3.1.1: Contributions to GDP growth from the production and expenditure side (in p.p)

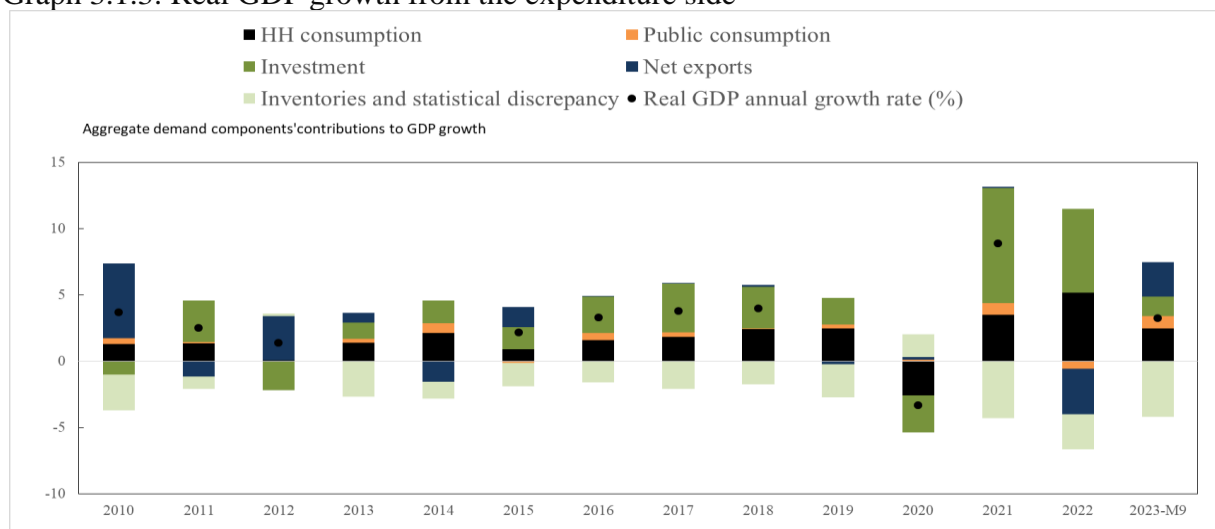
Contributions to GDP growth (in p.p.)	2022**				2023**		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
<b>by sectors:</b>							
<i>Agriculture, forestry and fishing</i>	0.0	0.1	0.0	-0.1	0.1	0.0	-0.2
<i>Industry, energy and water</i>	0.9	0.4	0.5	0.7	0.4	-0.3	-0.3
<i>Construction</i>	1.9	-0.3	1.0	1.7	0.4	1.4	0.5
<i>Services</i>	3.5	2.9	3.2	2.3	2.4	1.8	3.2
<i>Taxes minus subsidies on products</i>	1.0	0.1	0.3	-0.1	-0.4	0.2	0.4
<b>Real GDP growth (yoy in %)</b>	7.2	3.2	4.9	4.4	2.9	3.4	3.5
<b>by expenditures:</b>							
Private consumption	6.0	6.6	6.2	3.1	2.7	3.2	1.6
Public consumption	-0.6	-0.9	-0.4	-0.3	0.4	0.9	1.2
Investment	3.3	-1.1	1.7	2.8	1.5	2.5	0.5
Net exports	0.0	-4.5	-7.8	-1.3	-0.5	-1.7	10.0
Inventories and statistical discrepancy	-1.5	3.2	5.3	0.1	-1.3	-1.5	-9.9
<b>Real GDP growth (yoy in %)</b>	7.2	3.2	4.9	4.4	2.9	3.4	3.5

Source: INSTAT. \*\*preliminary data.

*Domestic demand* expanded by 4.4% in annual terms during the first three quarters of 2023, remaining the main growth driver. All sub-components contributed positively. “Private consumption” increased by 3.2%, “Public consumption” by 8.6% and “Investments” by 6.7%. Investments have resulted more volatile compared to other domestic demand components across the three quarters. They increased by 6.9% in the first quarter, supported mainly by public investments, accelerated thereafter to 11% in the second quarter driven by higher private investments and slowed down again at 2.1% in the third quarter. This trajectory reflects volatile output in the construction sector

*Exports* have been supported by a rapid increase in the service exports in the first three quarters of 2023. Their real growth rate in annual terms was 20.4%, fuelled by an unprecedented increase in the tourism sector. On the other hand, the real export of goods decreased by about 20% in annual terms reflecting reduced activity in industry. Overall, real exports increased by 8.7% y-o-y. The trade deficit in real terms increased by 34.7% annually due to service exports developments mainly in the third quarter.

Graph 3.1.3: Real GDP growth from the expenditure side



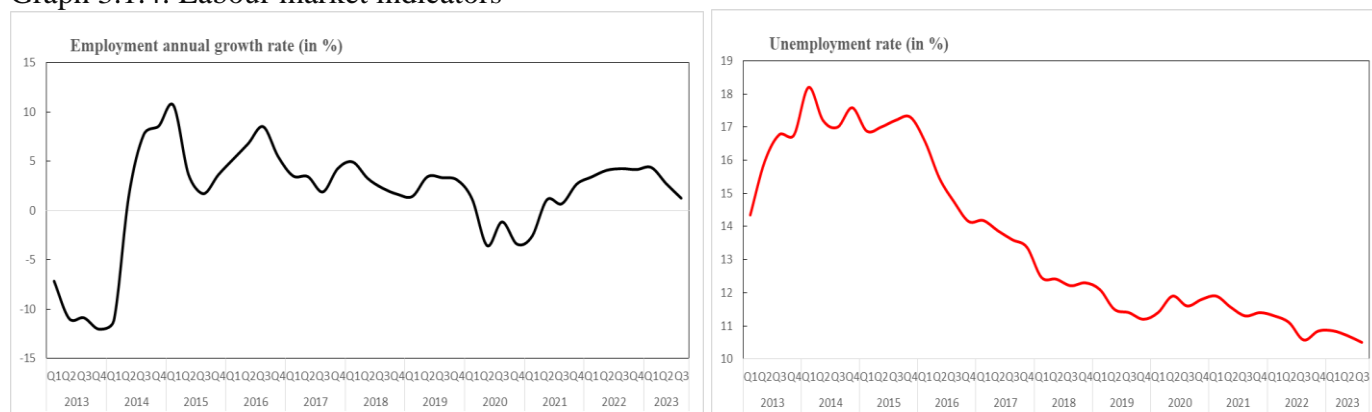
Source: INSTAT. \*Semi-final data. \*\*Preliminary data.

*Labour market indicators* have continued to improve during the first three quarters of 2023. Employment has increased on average by 2.8% annually, supported primarily by higher employment in services. Similarly, labour force participation rates have increased and inactivity rate has decreased. As a result, the unemployment

rate has decreased to 10.5% in the third quarter of 2023 from 10.8% at the end of last year. This represents the lowest unemployment rate figure ever registered.

*Positive developments in the labour market have been reflected in an increase in average wages.* The latter is a result of both labour market tightness and the difficulty facing private businesses to find qualified labour. Wages increased in both the public and the private sector. In the latter case, average wage growth rate for the first three quarters of the year was 13.0%, up from 12.2% in the previous year. Increase in wages was widespread across sectors. Wage growth in the public sector was 16.4%, up from 2.3% in the last year. Fast wage growth combined with decelerated inflation rate have contributed to an acceleration of real wages. During the first three quarters of 2023, real wages expanded by 9.0% y-o-y, up from 1.5% during 2022.

Graph 3.1.4: Labour market indicators



Source: INSTAT.

*Unit labour costs<sup>3</sup>* have increased fast reflecting strong real wage growth and a lower economic growth rate compared to last year. In annual terms, unit labour costs accelerated to 5.5% during the first half of 2023 from 1.9% a year ago.

*The current account has posted on overall surplus amounting to 0.2% of GDP during the first three quarters of 2023*, reflecting the impact from increased tourism inflows and higher remittances. Despite a decrease in the exports of goods that has led to a deterioration of the goods trade deficit, a large surplus in services' trade has led to a continuous structural improvement in the external position of the Albanian economy.

Albania's *gross external debt stock* to nominal GDP decreased to 49.7% in the third quarter of 2023 from 57.6% a year ago.

*The Albanian Lek has continued to appreciate during 2023*, strengthening the appreciation trend experienced during the last years. The Lek/Euro exchange rate started to appreciate fast during the second half of 2023. The rate of the latter reached its maximum in July whereby the euro traded on average by 103.2 lek, about 12.1% less than a year ago. The appreciation pace continued to be strong in the months that followed, averaging 10.0% yoy. The intensification of Lek appreciation has reflected continued structural improvements in the external side of the Albanian economy and reduced risk premia. For the first three quarters of 2023, large foreign currency inflows from the tourism sector, a fast increase of remittances and a steady increase in FDIs have led to a surplus on the current account side and major non-debt creating inflows on the financing side.

Average inflation during the first 10 months of 2023 was 4.9%, about 2.6 p.p lower than the same period of 2022. Headline inflation decreased to 3.8% in October, the lowest value registered since Russia's war of aggression in Ukraine. The deceleration of the inflation rate was rapid in the first half of the year, as a result of a contraction in energy commodity prices and of processed foods in international markets as well as due to the appreciation of the domestic currency in the exchange rate market. Beyond these developments, the high

<sup>3</sup>The proxy indicators for labour productivity, unit labour costs and average wage are based on National Account, Employment and Wage data, and are calculated for the private sector excluding Agriculture (INSTAT, , latest publications 2023Q2).



comparison base of last year has helped in the deceleration of the inflation rate this year. The decrease in inflation levelled off somewhat in the third quarter of 2023 due a more limited deceleration in imported inflation compared to the first half of 2023.

Domestic inflationary pressures have remained elevated due to a continued increase in domestic demand. At the same time, the former have been supported by wage increases across all sectors reflecting a tight labour market. These developments have been reflected in historically high services', domestic and core inflation rates. The inflation profile is similar to that of EU countries and countries in the region whereby the deceleration of inflation has reflected lower oil and food prices in international markets. Contributions to total inflation from energy and processed foods fell to 0.9p.p in the first 10 months of 2023 from 4.0p.p during the same period of 2022

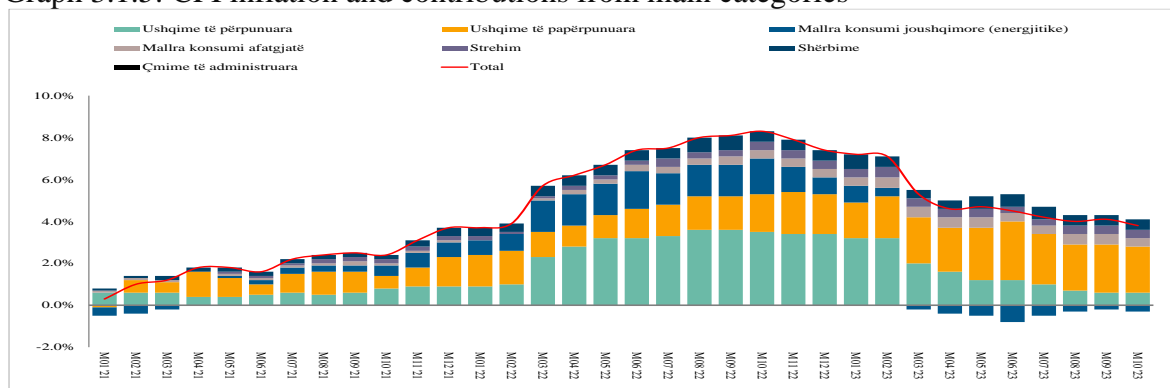
The "Unprocessed foods" category contributed more than last year to total inflation during the first 10 months of 2023 (by 2.2p.p from 1.5p.p). Prices of other more stable components of inflation, including services, accommodation and durable goods, increased their contributions, reaching 1.6p.p from 1.3p.p during the same period of last year. Prices of services in particular remain elevated due to a higher demand stemming from the tourism sector and related services, as well as due to higher unit labour costs that have a large share in services. Regulated prices had a negligible effect in total inflation, reflecting the unchanged price in electricity for household consumers.

In terms of main components, inflation was predominantly formed through the contribution of core and domestic components, despite a deceleration during the first 10 months of 2023. High underlying domestic inflationary pressures contributed to an above-target headline inflation. Core inflation decreased to 5.7% during the first 10 months of 2023, compared to 6.1% during the same period of last year. This reduction reflected the decrease in some processed foods. Net core inflation<sup>4</sup> and domestic inflation followed a similar path during the first 10 months of 2023. Net core inflation started to decelerate later and more gradually than core and total inflation. The former resulted at around 3.8% or about 1.3p.p higher compared to the same period of last year. Domestic inflation was 4.7% from 4.4% a year ago. The levels and the tendency of the inflation rates of these components indicate that service and durable goods inflations have maintained elevated and above-target inflationary pressures in the domestic economy.

Higher contribution of service inflation is linked to a strong tourism performance over a more extended period throughout 2023. As a result, the contributions of domestic and core inflations to the headline figure have increased gradually throughout the first 10 months of 2023 to form about 77% of the headline figure.

Inflation is projected to remain on a downward path influenced by moderated foreign inflationary pressures and the appreciation of the currency. Additionally, inflationary pressures are expected to weaken further as a result of the continued monetary policy normalisation stance and a decreasing trend of medium-term inflation expectations

Graph 3.1.5: CPI inflation and contributions from main categories



Source: INSTAT, Bank of Albania.

<sup>4</sup> Beyond some exclusions from the CPI basket included in the main core inflation measurement, net core inflation excludes so sub-items of processed foods, the inflation rate of which accelerated fast in 2022 as opposed to very low volatility prior to that. After these exclusions, the net core inflation is calculated over 44.6% of the total CPI basket whereas the main core inflation measurement covers about 69.2% of the CPI basket.



*Financial markets* are characterised by optimal liquidity conditions and decreasing risk premia during 2023. Government bond yields have decreased reducing the difference with the policy rate and between different maturities. The deceleration of the inflation rate and the appreciation of the currency generated the right conditions for a more gradual monetary policy normalisation stance compared to 2022. The effect of the latter developments on expectations and on the lower uncertainty on the macroeconomic outlook resulted in lower volatility in interest rates and an overall improvement in risk premia. As a result, government bonds interest rates have decreased and have difference with the policy rate has fallen. The 12-month T-bills interest rate has fluctuated around an average of 3.14% since June, with a minimal difference with the policy rate. This low level reflects a shift in government financing from instruments with short-term maturity to long-term maturity.

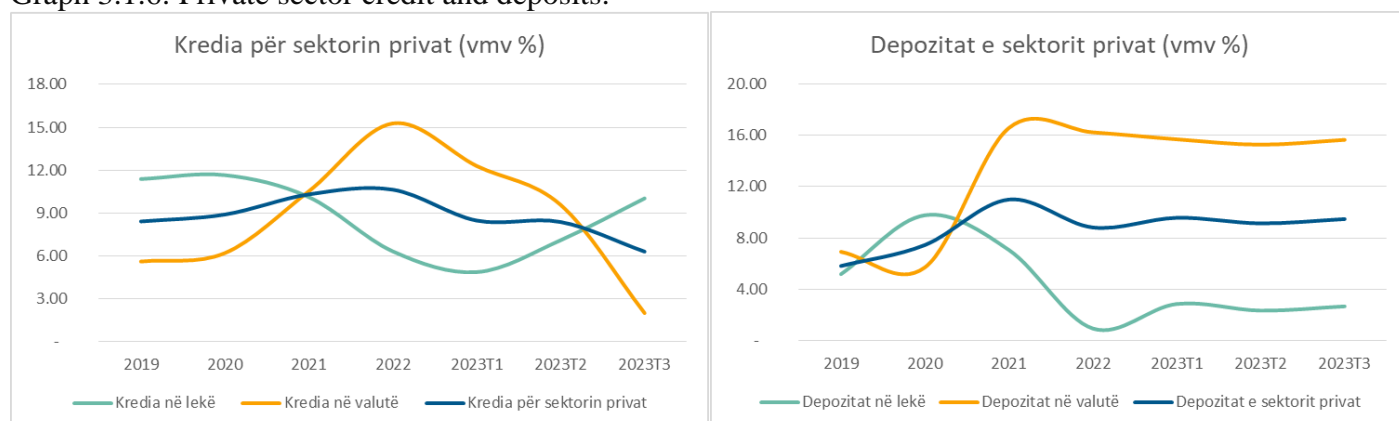
*Deposit interest rates* indicate a slower transmission of policy rate hikes, reflecting reduced liquidity needs. On the other hand, *credit interest rates* have remained generally unchanged or have decreased for specific market segments. This stability in credit interest rates is a result of both low growth in banks' cost of funding as well as a general reduction in risk premia. The average business credit interest rate has decreased in the second and third quarter of the year to 6.4% from 7.3% in the first quarter. Households' credit interest rates have moved in the same direction. After reaching a maximum of 8.0% in the last quarter of last year, they have decreased to an average of 6.7% in the third quarter of 2023. These interest rate levels are higher than the average observed rates for 2020-2021 prior to the start of monetary policy normalisation but they still remain conducive of credit growth.

*Private sector credit* has decelerated in 2023. Its annual growth rate decelerated to 7.9% in the third quarter of 2023 from 12.3% in 2022. Credit performance has been affected by a strong deceleration in foreign currency credit this year. According to market segments, this deceleration is attributed primarily to weaker business credit for liquidity purposes. Domestic demand expansion and a strong growth in the tourism sector this year has improved businesses' liquidity situation, with the latter repaying a chunk of existing credit.

*Business and household financing* has been mostly in lek during 2023, with the exception of the first quarter. As such, the annual growth of the lek portfolio reached 7.0% in September from the lowest value of 4.3% for the year in February. This evolution reflects largely lower credit interest rates in lek. At the same time, a fast increase in the euro interest rate and the appreciation of the currency have led to businesses and households to switch parts of their credit portfolios from foreign currency to lek. As a result, the currency structure of the credit portfolio has shifted more towards the lek. At the end of September credit in lek was about 55% of the total private sector credit stock or about 4.p.p. higher than in 2022.

*Credit for households* has expanded at stable rates this year at an average of 13.5%, slightly lower than the 15% registered in 2022. According to purpose, mortgage credit and consumer credit growth rates have increased by respectively 15% and 9.3%. These trends have reflected household demand for financing consumption expenditures and investment in housing, as well as conducive credit supply conditions. The latter reflects increased competition in the banking sector for the household credit market.

Graph 3.1.6: Private sector credit and deposits.



Source: Bank of Albania

*Funds of banks* have increased by 9.3% during 2023. Positive economic activity has supported the increase in foreign currency bank funds with an annual growth rate of about 15.6%. The latter has reflected both higher household savings and higher business liquidity. Deposits in lek have increased by 2.4% during 2023. This subdued growth rate reflects mostly weak government expenditures and high liquidity accumulated in the form of a high level of government deposit at the Bank of Albania. In September, about 55% of deposits in the banking sector are in foreign currency, level around 1p.p higher than at the end of 2022.

### 3.2. Medium-term macroeconomic scenario

#### Real sector

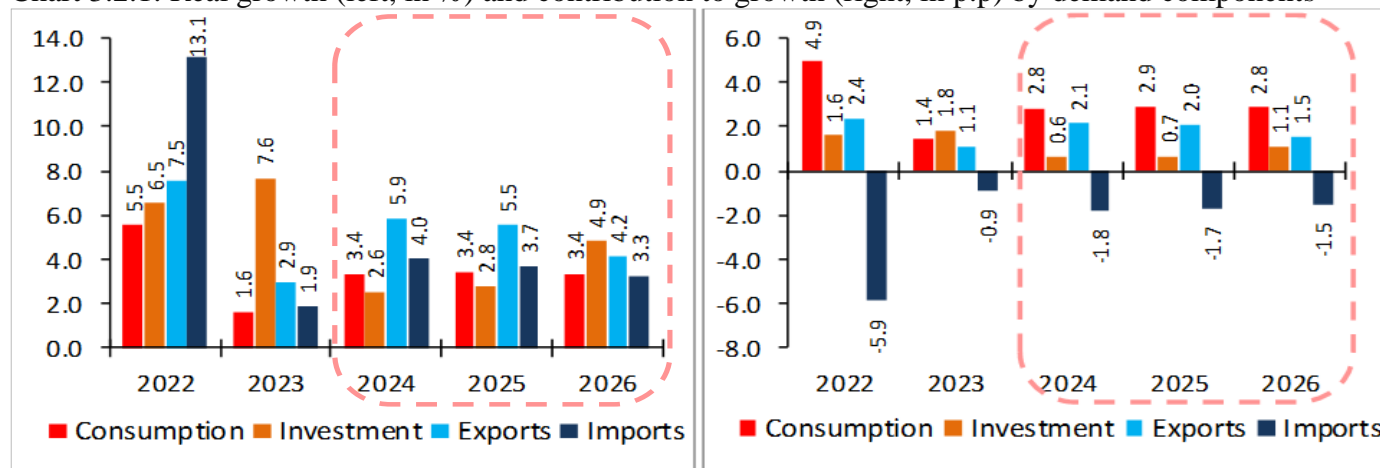
Over the past three years, the Albanian economy has demonstrated resilience in the face of multiple challenges, including the November 2019 earthquake, the global pandemic in 2020, and the European energy crisis triggered by the war in Ukraine starting in 2022. Following a milder-than-anticipated recession in 2020, contracting by -3.3 percent, the economy rebounded vigorously in 2021, registering a robust growth of 8.9 percent. This positive momentum persisted throughout 2022, resulting in an annual growth rate of 4.9 percent. The recovery was primarily propelled by strong domestic demand, notably fueled by sustained consumer spending and increased investment. In 2023, despite facing tighter financing conditions and a slowdown in foreign demand, the Albanian economy has sustained its positive trajectory and is anticipated to continue this trend in the medium term. According to the latest estimate from INSTAT, the Gross Domestic Product (GDP) for the first nine months of 2023 recorded an approximate 3.25 percent increase compared to the same period in 2022. This recovery is multifaceted, permeating nearly all sectors of the economy. The heightened demand for goods and services has led to expanded activity in the services and construction sector, while the volume of activity in the agriculture sector has remained relatively stable.

From the perspective of aggregate demand, the initial estimate for the first nine months of 2023 indicates a notable increase in nearly all components. The growth observed during this period is primarily attributed to robust domestic demand, fueled by both private consumption and investment, along with commendable performance in service exports, particularly in tourism. Concurrently, net foreign demand made a positive contribution to economic growth during the first nine months, and a further positive impact is anticipated for the last quarter of the year, buoyed by an exceptionally favorable tourist season. In specific terms, the data for the first nine months of 2023 reveals a 3.9 percent increase in total final consumption, with private consumption marking a 3.24 percent upturn compared to the corresponding period in the previous year. Additionally, Gross Fixed Capital Formation (total investments) witnessed a substantial increase of 6.67 percent during the same period.

Economic growth is anticipated to expand by 3.5 percent in 2023 and further to 3.7 percent in 2024, buoyed by favorable economic conditions, particularly the exceptional performance of the tourism sector and construction activity. Throughout the medium-term horizon, growth is projected to remain close to 3.9 percent. This sustained growth is chiefly attributed to robust domestic demand, stemming from both private consumption and investments, with a slightly positive net effect expected from net foreign demand. Notably, exports of goods and services, particularly in the tourism sector, are forecasted to exhibit robust performance. However, the anticipated increase in imports suggests a slight positive net contribution from foreign demand in the medium term. Specifically, for the medium term (2024-2026), final consumption is projected to grow in real terms by an average of around 3.4 percent per year, contributing an average of 2.9 percentage points per year to overall growth. Concurrently, investments are anticipated to experience real growth at an average rate of 3.4 percent per year, contributing an average of 0.8 percentage points per year to GDP growth.

Projections for the 2024-2026 period indicate an average annual real growth of 5.2 percent for exports of goods and services, contributing positively with an average of 1.9 percentage points per year to GDP growth. Conversely, imports of goods and services in this medium-term span are expected to expand by 3.7 percent, resulting in an average negative contribution of about -1.7 percentage points per year to the overall growth. As a result, net foreign demand is foreseen to have a slightly positive impact on overall growth, averaging 0.2 percentage points per year.

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



Source: INSTAT, Ministry of Finance and Economy (2023)

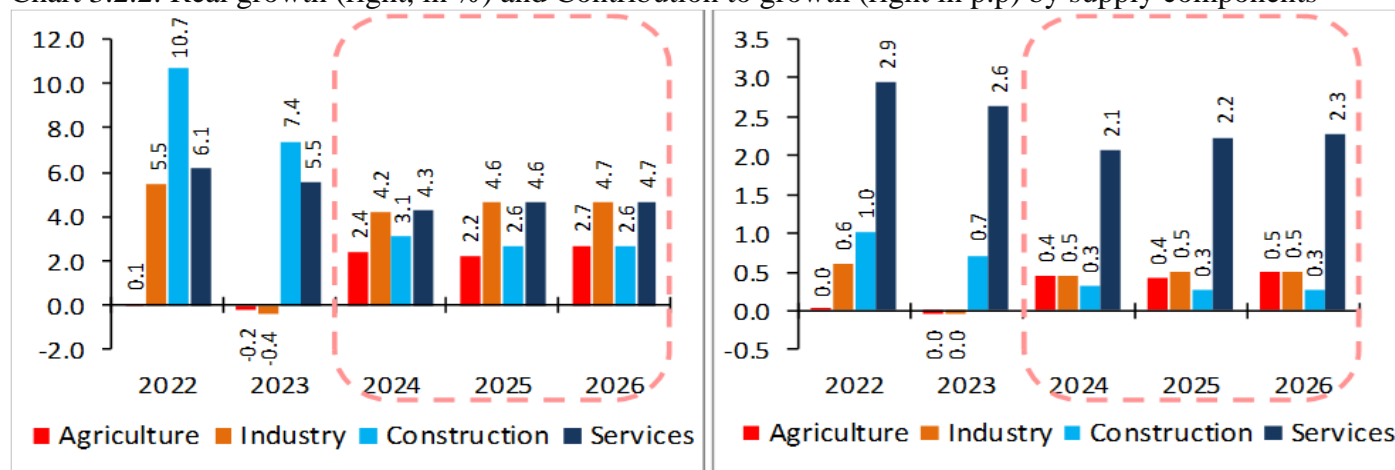
Table 3.2.1: Real growth (left, in %) and contribution to growth (right, in p.p.) by demand components:

	2020	2021	2022	2023	2024	2025	2026		2020	2021	2022	2023	2024	2025	2026
				Est.	Fore.	Fore.	Fore.					Est.	Fore.	Fore.	Fore.
<b>Final Consumption (a+b+c)</b>	<b>-2.8</b>	<b>5.1</b>	<b>5.5</b>	<b>1.6</b>	<b>3.4</b>	<b>3.4</b>	<b>3.4</b>		<b>-2.6</b>	<b>4.7</b>	<b>4.9</b>	<b>1.4</b>	<b>2.8</b>	<b>2.9</b>	<b>2.8</b>
Final Consumption of the Households	-3.3	4.7	7.4	1.3	2.6	3.5	3.1		-2.6	3.8	5.6	1.0	2.0	2.6	2.3
Final Consumption of General Government	1.5	7.8	-4.7	3.9	9.0	2.6	5.6		0.2	0.9	-0.6	0.4	0.9	0.3	0.6
Individual consumption	2.0	11.3	-3.2	1.7	9.9	3.4	6.4		0.1	0.6	-0.2	0.1	0.5	0.2	0.3
Collective consumption	1.0	4.7	-6.1	5.9	8.2	2.0	4.9		0.1	0.3	-0.4	0.3	0.4	0.1	0.3
Consumption of NPISHs	-17.3	0.2	-20.3	1.0	1.5	1.5	1.3		-0.1	0.0	-0.1	0.0	0.0	0.0	0.0
<b>Gross Fixed Capital Formation</b>	<b>-1.4</b>	<b>19.2</b>	<b>6.5</b>	<b>7.6</b>	<b>2.6</b>	<b>2.8</b>	<b>4.9</b>		<b>-0.3</b>	<b>4.4</b>	<b>1.6</b>	<b>1.8</b>	<b>0.6</b>	<b>0.7</b>	<b>1.1</b>
Public	27.6	20.5	-14.7	19.0	-3.8	-3.8	3.8		1.5	1.5	-1.2	1.2	-0.3	-0.2	0.2
of which Central Government	35.6	23.9	-17.4	20.8	-6.0	-5.4	3.4		1.6	1.5	-1.2	1.1	-0.4	-0.3	0.2
Private	-10.8	18.6	16.6	3.7	5.1	5.2	5.2		-1.8	2.9	2.7	0.7	0.9	0.9	0.9
<b>Domestic Absorption (1+2)</b>	<b>-2.5</b>	<b>7.8</b>	<b>5.8</b>	<b>2.9</b>	<b>3.2</b>	<b>3.3</b>	<b>3.7</b>		<b>-2.9</b>	<b>9.0</b>	<b>6.5</b>	<b>3.2</b>	<b>3.5</b>	<b>3.6</b>	<b>4.0</b>
<b>Net export<sup>A</sup> (a-b)</b>	<b>-1.3</b>	<b>-0.7</b>	<b>26.3</b>	<b>-2.1</b>	<b>-3.2</b>	<b>-3.8</b>	<b>-0.8</b>		<b>0.2</b>	<b>0.1</b>	<b>-3.5</b>	<b>0.2</b>	<b>0.3</b>	<b>0.3</b>	<b>0.1</b>
Exports of goods and services (f.o.b)	-27.9	52.0	7.5	2.9	5.9	5.5	4.2		-8.7	11.8	2.4	1.1	2.1	2.0	1.5
Exports of goods	-2.6	50.2	16.5	-5.6	6.4	4.7	5.3		-0.2	3.0	1.4	-0.6	0.6	0.5	0.5
Exports of services	-34.6	52.7	4.2	6.4	5.7	5.8	3.7		-8.6	8.8	1.0	1.7	1.5	1.6	1.0
Imports of goods and services (f.o.b)	-19.8	31.5	13.1	1.9	4.0	3.7	3.3		-8.9	11.7	5.9	0.9	1.8	1.7	1.5
Imports of goods	-6.4	29.0	8.6	0.0	4.5	3.8	3.4		-1.9	8.2	2.9	0.0	1.4	1.2	1.1
Imports of services	-45.2	39.3	26.7	6.6	3.0	3.4	3.0		-7.0	3.5	3.0	0.9	0.4	0.5	0.4
<b>Change in inventories</b>	<b>-55.7</b>	<b>60.4</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		<b>-0.4</b>	<b>0.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>Statistical discrepancy</b>	<b>33.4</b>	<b>44.1</b>	<b>6988.2</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>		<b>-0.2</b>	<b>-0.4</b>	<b>1.9</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>
<b>GROSS DOMESTIC PRODUCT (3+4+5)</b>	<b>-3.3</b>	<b>8.9</b>	<b>4.9</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>	<b>4.0</b>		<b>-3.3</b>	<b>8.9</b>	<b>4.9</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>	<b>4.0</b>

Source: INSTAT, Ministry of Finance and Economy, (2023)

Taking the perspective of aggregate supply, it is anticipated that all major sectors will perform in alignment with their historical average growth rates as the lingering effects of previous shocks diminish. Specifically, the forecast indicates that services will experience an average annual real growth of 4.5 percent over the period 2024-2026, with their larger share contributing notably at an average of 2.2 percentage points per year. Industry is expected to grow at an annual average of 4.5 percent, making an average contribution of 0.5 percentage points per year. Agriculture is projected to achieve a 2.4 percent average annual growth over the same period, with an average contribution of 0.5 percentage points per year. Additionally, Construction is estimated to grow by 2.8 percent annually, contributing an average of 0.3 percentage points per year.

Chart 3.2.2: Real growth (right, in %) and Contribution to growth (right in p.p) by supply components



Source: INSTAT, Ministry of Finance and Economy, (December 2023)

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

	Real Growth (%)							Contribution to Growth (in p.p)						
	2020	2021	2022	2023	2024	2025	2026	2020	2021	2022	2023	2024	2025	2026
				Est.	Fore.	Fore.	Fore.				Est.	Fore.	Fore.	Fore.
Agriculture, forestry and fishing	1.3	1.8	0.1	-0.2	2.4	2.2	2.7	0.2	0.3	0.0	0.0	0.4	0.4	0.5
Mining and quarrying industry	-27.5	7.1	5.6	2.1	5.1	5.4	5.4	-0.8	0.1	0.1	0.1	0.1	0.1	0.1
Manufacturing industry	-4.1	11.1	7.1	-3.7	4.1	4.7	4.7	-0.3	0.7	0.4	-0.2	0.2	0.3	0.3
Electricity, gas, steam and air conditioning supply	9.6	10.0	2.1	7.4	3.9	4.2	4.2	0.2	0.2	0.0	0.1	0.1	0.1	0.1
Water supply; sewerage, waste management and remediation activities	-11.3	14.5	1.2	1.1	2.9	2.8	2.8	-0.1	0.1	0.0	0.0	0.0	0.0	0.0
Construction	1.2	18.0	10.7	7.4	3.1	2.6	2.6	0.1	1.6	1.0	0.7	0.3	0.3	0.3
Wholesale and retail trade; repair of motor vehicles and motorcycles	-2.0	4.6	7.2	2.3	4.1	5.2	5.4	-0.2	0.5	0.8	0.3	0.5	0.6	0.6
Transportation and storage	-18.1	20.5	12.4	4.1	4.4	5.4	5.3	-0.6	0.6	0.4	0.1	0.1	0.2	0.2
Accommodation and food service activities	-26.1	26.1	19.2	20.1	7.2	7.5	7.5	-0.7	0.5	0.5	0.5	0.2	0.2	0.2
Information and communication	-1.8	9.8	9.6	7.8	3.3	3.6	3.6	-0.1	0.3	0.3	0.2	0.1	0.1	0.1
Financial and insurance activities	0.3	11.4	9.1	3.6	4.2	4.4	4.4	0.0	0.2	0.2	0.1	0.1	0.1	0.1
Real estate activities	2.9	5.8	11.2	11.2	3.4	3.2	3.2	0.2	0.4	0.6	0.6	0.2	0.2	0.2
Professional, scientific and technical activities	-11.6	-1.2	3.5	0.9	4.6	4.0	4.0	-0.4	0.0	0.1	0.0	0.1	0.1	0.1
Administrative and support service activities	-7.6	12.7	4.2	1.1	4.6	4.7	4.7	-0.3	0.4	0.1	0.0	0.1	0.1	0.1
Public administration and defence; compulsory social security	2.7	4.6	-9.4	5.6	4.1	3.6	3.6	0.1	0.2	-0.4	0.2	0.2	0.1	0.1
Education	1.1	4.2	5.3	4.3	4.7	4.5	4.5	0.0	0.2	0.2	0.2	0.2	0.2	0.2
Human health and social work activities	2.5	16.4	5.7	3.7	3.7	4.6	4.6	0.1	0.5	0.2	0.1	0.1	0.2	0.2
Arts, entertainment and recreation	-6.1	29.7	2.2	21.4	4.9	4.3	4.3	0.0	0.2	0.0	0.1	0.0	0.0	0.0
Other service activities	-7.0	2.5	-2.4	5.4	4.7	5.2	5.2	-0.1	0.0	0.0	0.1	0.1	0.1	0.1
<b>GVA at basic prices</b>	<b>-2.9</b>	<b>8.2</b>	<b>5.3</b>	<b>3.7</b>	<b>3.7</b>	<b>3.9</b>	<b>4.0</b>	<b>-2.6</b>	<b>7.2</b>	<b>4.6</b>	<b>3.3</b>	<b>3.3</b>	<b>3.4</b>	<b>3.5</b>
Net taxes on products	-5.9	14.0	2.1	1.4	3.8	3.9	4.1	-0.7	1.7	0.3	0.2	0.5	0.5	0.5
<b>GDP at market prices</b>	<b>-3.3</b>	<b>8.9</b>	<b>4.9</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>	<b>4.0</b>	<b>-3.3</b>	<b>8.9</b>	<b>4.9</b>	<b>3.5</b>	<b>3.7</b>	<b>3.9</b>	<b>4.0</b>

Source: INSTAT, Ministry of Finance and Economy (December 2023)

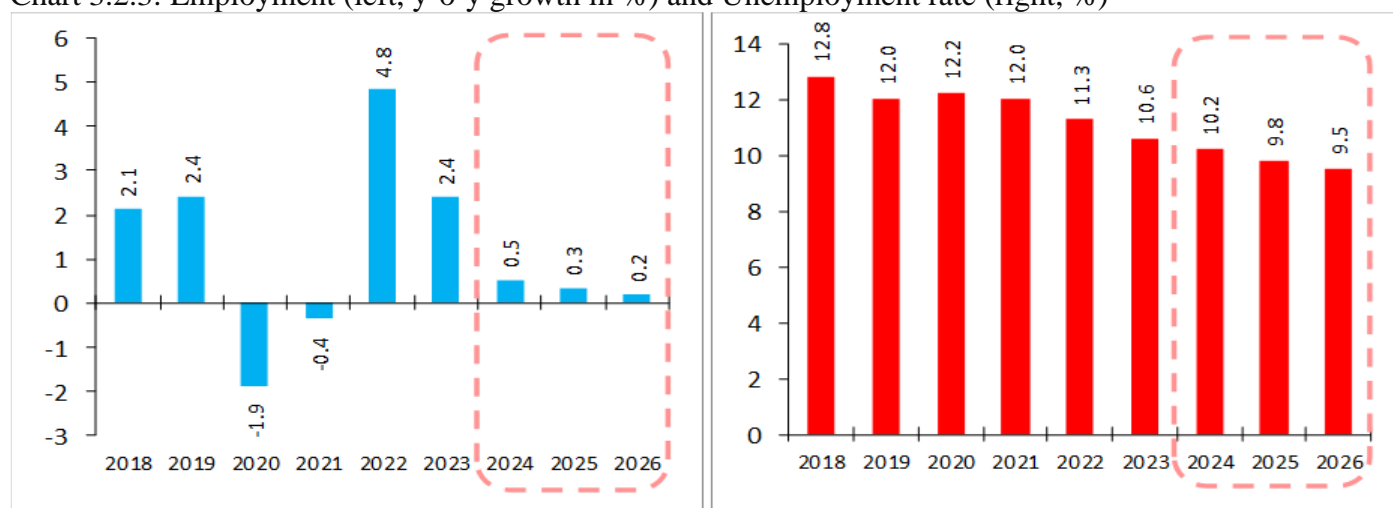
Positive developments in the labour market have been consistently observed, marking a continuous recovery from the economic downturn triggered by the pandemic. Throughout the year 2023, the labour market has sustained a downward trend in the unemployment rate, accompanied by an increase in overall employment levels. These trends reflect the favourable dynamics of the broader economic landscape in Albania up until the third quarter of 2023. During the first three quarters of 2023, the annual growth rate of the employed population averaged 2.7 percent. The surge in employment can be attributed primarily to the sustained growth in workforce participation rates and employment rate, reached respectively 76 percent in the third quarter (compared to 73.4 percent in Q3-2022) and 67.7 percent (compared to 65.4 percent in Q3-2022), underscoring positive trends in job supply.

For the age group 15-64, the average unemployment rate for the third quarter of 2023 was 11.2 percent, indicating a decrease from the 11.3 percent recorded in the same quarter of 2022. Specifically, for the third quarter of 2023 alone, the unemployment rate for the age group 15-64 stood at 11.0 percent. Additionally, for the age group 15 and above, the unemployment rate during the third quarter of 2023 reached an even lower level of approximately 10.5 percent.

In line with the medium-term growth projections, employment is expected to grow by an average of 0.3% per year over the period 2024-2026. Higher labour force participation rate is expected to be the main driver of labour supply growth. Whereas the growth of labour demand is expected to reflect more or less the same structure as the aggregate supply of economic activity. Therefore, services are expected to contribute more in the labour demand increase than the rest of economic supply sectors. Despite the expected expansion of employment over the medium term, again, overall labour productivity is expected to have a slight improvement over this period. Unemployment is expected to continue a gradual reduction reaching at 9.5% in 2026.

Aligned with the medium-term growth projections, employment is anticipated to grow at an average rate of 0.3% per year over the period 2024-2026, while unemployment is anticipated to undergo a gradual reduction, reaching 9.5% in 2026. As the demand for employment growth aligns with the long-term dynamics of key economic sectors mentioned earlier, it is foreseen that the services sector will play a more substantial role in driving job demand compared to other sectors. Although the anticipated expansion in employment during the medium term is expected to be moderately subdued, it remains positive. This reflects the dual impact of increased workforce participation rates, alongside counteracting negative demographic trends. Concurrently, overall labour productivity is expected to witness significant improvement, emerging as a critical factor propelling economic growth during this period. This improvement underscores the ongoing shift of the workforce towards sectors characterized by higher productivity and the persistent influence of technological advancements, including continuous infrastructure enhancements and sustained structural reforms.

Chart 3.2.3: Employment (left, y-o-y growth in %) and Unemployment rate (right, %)



Source: INSTAT, Ministry of Finance and Economy (December 2023)

### Monetary and exchange rate policy and inflation

The main objective of monetary policy is price stability. The Bank of Albania pursues an inflation-targeting regime, with a point target of 3.0% of annual CPI inflation over the medium term. The main instrument for setting the monetary policy stance with respect to achieving the target is the interest rate applied in reverse repo operations with seven day maturity. The Bank of Albania commits to a free-floating exchange rate regime, whereby supply and demand movements in the exchange market determine the value of the domestic currency vis-a-vis other currencies. The Bank reserves the right to intervene in order to maintain an optimal level of foreign reserves, via auctions, which are carried out according to publicly available schedule.

Inflationary pressures have receded throughout 2023, led by a deceleration in food inflation and the fall of energy commodity prices in international markets. On the other hand, domestic inflationary pressures have remained elevated as a result of a continuous expansion of domestic demand and of increased production costs due to higher wages. The fast appreciation of the Lek vis-à-vis major foreign currencies throughout 2023 has helped cushion the impact of foreign inflationary pressures to final domestic prices.



In order to ensure the anchoring of inflationary expectations and the return of inflation to target within the medium-term, the Bank of Albania has continued its monetary policy normalisation stance. The base policy rate was increased from a historical minimum of 0.50% in March 2022 to 3.25% in November 2023. In light of the reduced policy impulse, monetary conditions have tightened gradually.

The Bank of Albania expects inflation to continue a downward path and converge to target gradually in 2024. This projection factors in a continuation of the monetary policy normalisation stance. The bank of Albania estimates increased risks to inflation and as such it has communicated to the public the necessity of maintaining the monetary policy normalisation stance, simultaneously stressing that the majority of such normalisation has already been carried out. As a result and taking into account the heightened uncertainty stemming from the international environment and from geopolitical tensions, the intensity of monetary policy normalisation will be dependent on incoming data and the ensuing macroeconomic outlook. The free-floating exchange rate regime has aided in cushioning foreign inflationary pressures from high prices in trading partners. Going forward, the expected stability of exchange rate will provide a pivotal role in containing inflationary price shocks from international markets onto final domestic prices.

The current policy mix is conducive to slowing domestic demand and the return of inflation to the target. Fiscal policy is expected to follow a consolidation trajectory providing negative impulse to economic growth. As such, it supports the normalization of monetary policy path, which otherwise would have to be more aggressive. The current macroeconomic policy mix safeguards financial stability as a necessary precondition for a sustainable economic growth rate in the medium to long term. As such, financial market risks are generally contained and the current macroprudential policy stance is adequate to ensure no vulnerabilities arise in the financial market.

### External sector and its medium-term sustainability

#### *Balance of Payment and merchandise trade developments*

The balance of payments of Albania has improved further in the first three quarters of 2023. The current account has posted for the first time, a surplus in the amount of 0.2% of GDP, largely reflecting developments in the third quarter. Improvement in the current account deficit reflects higher inflows from tourism and remittances. On the other hand, the goods trade deficit has deteriorated as a result of falling exports.

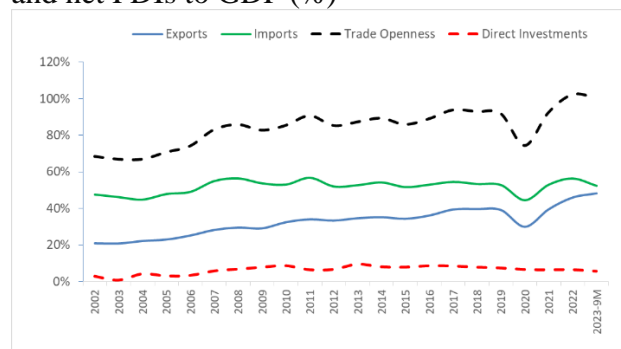
The real effective exchange rate<sup>5</sup> has followed an appreciation trajectory starting from the end of 2015, fuelled by continuous structural improvements of the external sector, higher productivity and decreasing risk premia. After peaking in 2018 at an annual appreciation rate of 7.5%, the strengthening of the lek in real effective terms moderated somewhat, averaging 2.6% during 2019-2022. The appreciation started a renewed acceleration in 2023, reaching 11.9% in annual terms in the third quarter of the year and 13.5% in October-November. This trend reflects high inflows from tourism services, from remittances and FDI's. The real currency appreciation has impacted negatively the competitiveness of price-taking exporting sectors. The latter have also experienced a decrease in demand during 2023.

Goods trade statistics indicate contracting flows for both exports and imports. During the first 11 months of 2023, goods exports in nominal terms have decreased by 9.8%. This performance largely reflects the fall in international prices, including also the stronger domestic currency. Additionally, exported volumes have also contracted for some industrial categories like textiles, metals and minerals in reflection of adverse international conjecture for trade in these goods. Decreasing prices in international markets have led at the same time to falling goods' imports.

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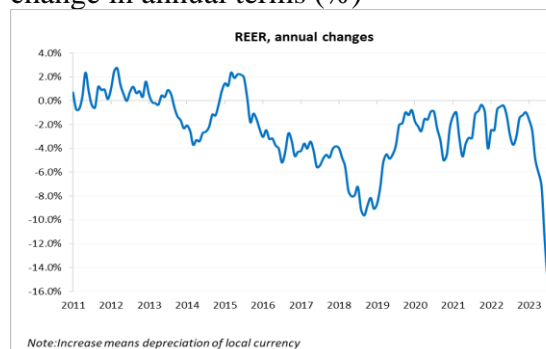
<sup>5</sup> REER is calculated as a trade-weighted index for 5 main trading partners: Italy, Greece, Germany, China, and Turkey. An increase in the index means depreciation of the domestic currency.

Graph 3.2.4: Trade openness, exports, imports and net FDIs to GDP (%)



Source: Bank of Albania, INSTAT.

Graph 3.2.5: Real effective exchange rate change in annual terms (%)



According to the Constant Market Share (CMS)<sup>6</sup> decomposition of Albanian exports, for 2022, world export growth was the primary driver behind the growth in Albanian exports towards EU12 countries, continuing with competitiveness and market distribution. For exports growth towards CEFTA countries, competitiveness was the main driver followed by world export growth. The other two components also had a positive impact.

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

	2022	
	EU-15	CEFTA
World Export Growth	466.4	114.0
Commodity composition	5.5	18.1
Market Distribution	138.9	84.8
Competitiveness	267.2	251.9
Total	877.9	468.8

Source: Bank of Albania, INSTAT, UN Comtrade

The higher service exports surplus was the main driver behind the improvement in the current account during the first three quarters of 2023. Travel inflows (tourism) have continued to increase rapidly (46.6% in annual terms). As a result, exports of services increased by 38.2% annually during the same period. A similar tendency is observed for the service imports. As a result of tourism outflows increasing by 29.9% during the first three quarters of 2023, overall service imports expanded by 32.4% annually. Exports were nevertheless higher and as such, the service account's surplus increased by 43.8%.

The primary income deficit decreased by 7.1% annually during the first three quarters of 2023. The latter is linked to a larger effect to primary income inflows from the compensation of employees sub account. In parallel, foreign investment outflows have increased, but the effect was not strong enough to compensate for higher inflows from compensation of employees. The secondary income surplus increased by 9.5% in annual terms as a result of remittances increasing by 14.2%.

The current positive performance is expected to extend into the final quarter of the year. Exports of services and remittances are expected to drive further improvements in the external sector. On the other hand, adverse developments in the goods trade are expected to continue to drive the results for the second half of 2023.

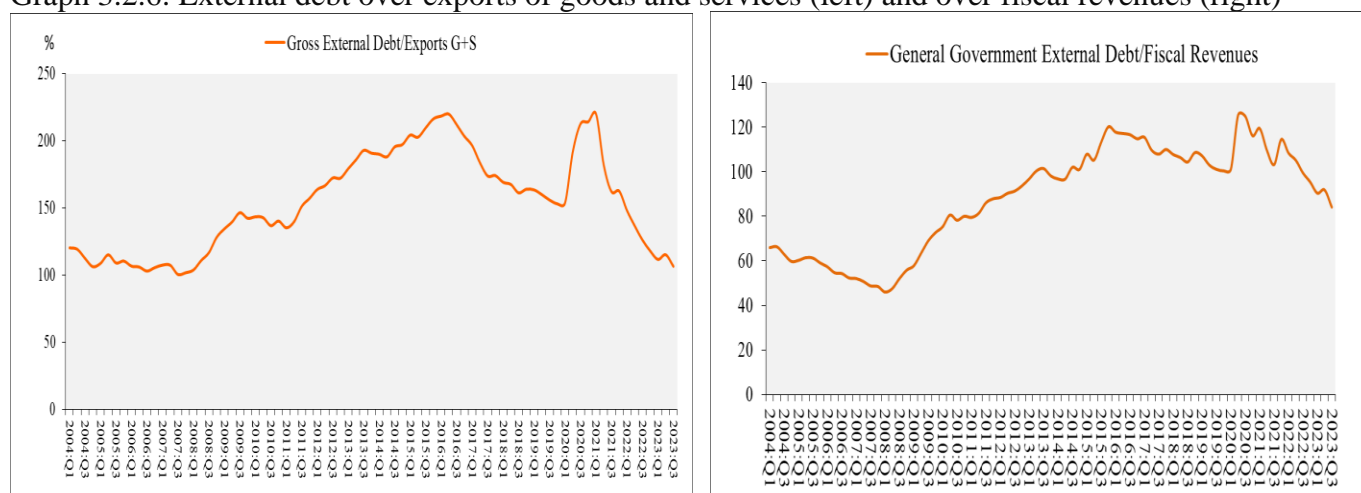
Net foreign direct investments have increased further in the first three quarters of 2023. Net FDIs increased by 6.8% whereas FDI inflows increased by 10.6%. The financial sector was the main contributor to FDI growth during this period. Portfolio investment flows have reflected a growth in liabilities to non-residents, primarily in the second quarter of 2023. The latter is a result of a Eurobond issuance during this quarter.

<sup>6</sup> See <http://go.worldbank.org/KOCHUD4JN0> for a discussion on CMS.

The gross external debt (GED) stock of Albania reached EUR 10.1 billion at the end of the third quarter of 2023, increasing by 2.5% annually. The increase in the GED stock is driven primarily by the Eurobond issuance during the second quarter of 2023. On the other hand, a faster increase in the nominal GDP and a fast appreciation of the lek exchange rate vis-à-vis the euro, starting in the third quarter of 2023, yielded the GED stock as a ratio to GDP to decrease to 49.7% from 57.6% during the same period of last year. Long term debt covers about 91.2% of the GED stock and is composed primarily of long-term loans to the general government and to other sectors. The remaining chunk, the short-term GED stock, is composed primarily of “currency and deposits” of deposit-taking corporations and “trade credits”.

Long-term repayment capacity indicators have improved during the first three quarters of 2023. The external debt ratio to exports of goods and services decreased from 126.2% a year ago to 106.6% in the third quarter of 2023. For the same reference period, the ratio of gross external debt to fiscal revenues fell from 203.9% to 171.1%. The ratio of the general government debt stock to fiscal revenues decreased to 84.1% in the third quarter of 2023, from 99.5% a year ago. Liquidity adequacy indicators have also improved indicating low short-term obligation risks.

Graph 3.2.6: External debt over exports of goods and services (left) and over fiscal revenues (right)



Source: Bank of Albania.

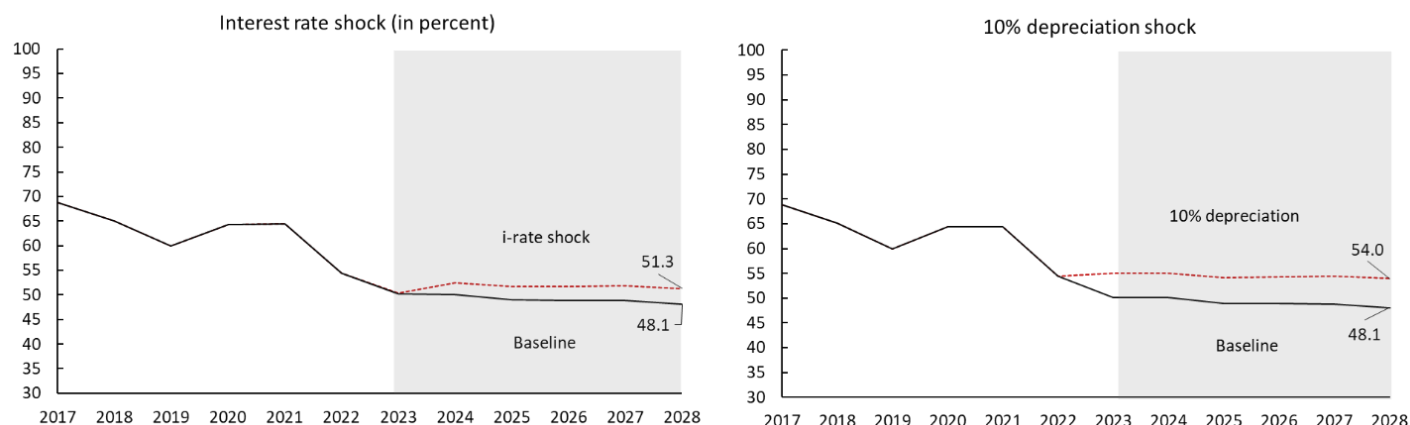
In our baseline scenario for 2023, we expect the gross external debt (GED) to remain at about 50% to GDP, down by around 4p.p from end-2022. This estimation implies a limited expansion of the GED compared to past history due to both lower private and public sector demand. Furthermore, economic activity is projected to expand at a faster pace in nominal terms, inducing a reduction of the gross external debt to GDP ratio.

Going forward, we project a gradual decrease of the GED to GDP ratio in reflection of an expected fiscal consolidation trajectory.

This projection is surrounded by high uncertainty and some scenarios are included in our external debt sensitivity analysis. Here, we simulate separate effects from interest rate and exchange rate shocks. In the first scenario, the average interest rate paid on the external debt increases permanently by two standard deviations from the baseline forecast. In the second scenario, the domestic currency is shocked by a one-off depreciation of 10% compared to the baseline exchange rate value for 2023. Simulation results indicate that the deterioration of the external debt position is stronger under the 10% depreciation scenario when compared to the baseline projection. The endpoint differences are about 3p.p for the interest rate shock scenario and about 6p.p for the exchange rate shock scenario.



Graph 3.2.7: Gross External Debt to GDP at baseline and under risk scenarios: nominal interest rate shock (left) and real depreciation shock (right)



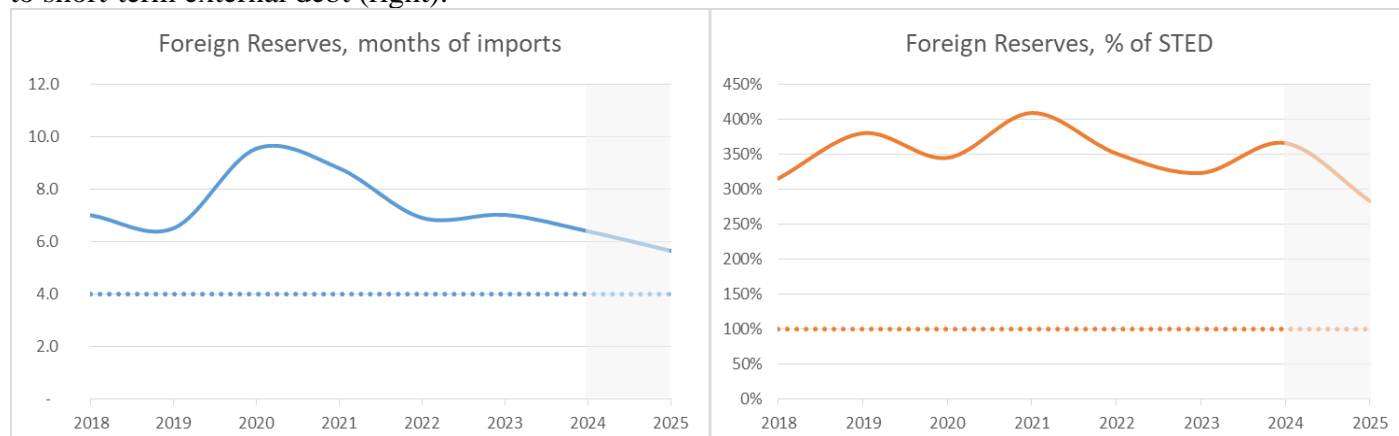
Source: Bank of Albania

### *Reserve stock developments<sup>7</sup>*

The Bank of Albania holds international reserves in line with two adequacy criteria: coverage of (1) at least 4 months of imports of goods and services and (2) at least 100% of the short-term external debt. These criteria serve as minimum threshold levels, while Bank of Albania optimizes its reserves in order to balance potential future risks and costs associated with holding reserves.

As of December 2023, the stock of gross international reserves was EUR 5.84 billion or approximately 28% of GDP. This level is enough to cover 7.0 months of imports of goods and services and over 3 times the short-term external debt<sup>8</sup>. Both these criteria are expected to remain well above their minimum adequacy levels in the medium run.

Graph 3.2.8: Projection of international reserves relative to imports of goods and services in months (left) and to short-term external debt (right).



Source: Bank of Albania

### Financial Sector

The banking system remains well capitalized and the regular stress tests suggests that it would remain resilient to mild-to-moderate macroeconomic and financial shocks over a medium term horizon. Loans and deposits have continued to increase but annual growth rates up until end-November were lower compared to 2020-2022. Adjusted for the exchange rate movements, the growth rates in foreign currency loans and deposits would be comparable to the high rates observed in 2021 and 2022. A slower growth rate in lending compared

<sup>7</sup> Data on reserve ratio to short-term debt are recalculated according to revisions in short-term debt statistics.

<sup>8</sup> Based on our forecasts for imports and short-term foreign debt for Q4-2023.

to deposits has resulted in a moderate decline in financial intermediation with a loan-to-deposit ratio dropping to 46% in November'23 from 55% in 2021.

As interest rates have continued to increase, banks have reported a slight deterioration in loan quality reflected in a higher share of lost loans. The share of lost loans increased to 2.8% and 56% of total and nonperforming loans from 2.3% and 46% in December'22. Interest revenues on loans and securities have increased faster than interest expenses on deposits and securities, and the financial result of the banking sector has improved significantly. The net result of banks as at end November'23 (+ 29 bn ALL) was ca. 30% higher compared to that of the same period in 2022. The risks aggregated in the financial stability map indicate that external and internal risks have mitigated and remain moderate-low.

All bank indicators subject to regulation suggest that exposure of banks to liquidity and market risks remains limited and well below critical limits. Despite the low level of nonperforming loans to total loans ratio, the banking sector and BoA are concerned with the potential transformation of interest rate risk into credit risk, due to the increasing loan repayment costs for borrowers. This outlook is based on the premise that market interest rates have increased in line with the increase in the base rate, and on the fact that more than 70% of the banks' loan portfolio consists of variable-rate loans. However, specific stress testing exercises suggest that banks' existing capital surpluses are sufficient to withstand the effects of a further increase in interest rates under the assumed scenarios.

<i>Financial sector indicators</i>							
	2017	2018	2019	2020	2021	2022	2023*
<b>Total assets of the banking system (EUR million)</b>	10,768	11,398	12,380	13,156	14,980	16,426	18,756
Foreign ownership of banking system (%)	81.4	80.8	78.4	69.4	68.8	66.2	64.7
Credit growth (% , aop)	-0.1	-1.7	3	6.1	6.9	11.2	2.5
Deposit growth (% , aop)	1	-1.2	2.5	5.8	8.5	9.6	4.4
Loan-to-deposit ratio (eop)	54.9	53.9	55.6	54.7	54.8	47.1	46.4
Interest rate spread (% , eop)	5.1	5.1	5	4.9	4.1	4.5	5.2**
Variable interest loans to total loans	72.6	71.6	77.4	73.8	74.7	75.3	75.9
<b>Financial soundness indicators (eop, %)</b>							
- non-performing loans	13.2	11.1	8.4	8.1	5.7	5.0	5.1
- regulatory capital to risk-weighted assets	17	18.7	18.7	18.7	18.5	18.8	19.6
- liquid assets to total assets	30.2	34.2	35.7	34.8	33.3	29.6	30.9
-return on equity	15.7	13	13.5	10.7	12.9	12.3	16.7
- forex loans to total loans	56.4	56.1	51.2	50.3	51.1	51.4	45.7
- net open position in fx to regulatory capital	6.7	7.8	7.4	8.4	9.2	5.0	8.8
- net open position of interest rate in banking book to regulatory capital	-1.5	2.4	2.9	4.3	5.8	3.0	1.4

\* September 2023- latest month reporting data

\*\* From November 2023 reporting according to the new methodology of MFIs interest rates

During the first nine months of 2023 the share of the financial system assets to GDP dropped by 3 p.p. in annual terms to 93%, since the expansion rate of the financial system assets was smaller compared to the economic growth rate, and reflecting also the impact of the appreciating domestic currency. All segments of the financial system have reported growth of their balance sheets over the period. Within the financial system, the banking sector continues to dominate with almost 91% of the total assets. The exposure of the banking sector to the non-banking sector remains low and stable, while the sensitivity of the non-banking sector to the activity of the banking sector remains high.

**Assets of the financial system to GDP**

Supervisory Authority	Bank of Albania			Financial Supervision Authority			Size of financial sector
Financial system	Banking sector	NBFIs	SLAs and Union	Insurance companies	Pension funds	Investment funds	
<b>2011</b>	86.1	2.6	0.8	1.5	0.0		<b>91.0</b>
<b>2012</b>	89.1	2.7	0.8	1.6	0.0	1.2	<b>95.4</b>
<b>2013</b>	91.4	2.6	0.7	1.6	0.0	3.7	<b>100.2</b>
<b>2014</b>	92.7	2.8	0.8	1.8	0.0	4.6	<b>102.7</b>
<b>2015</b>	91.9	2.7	0.7	2.0	0.1	4.7	<b>102.0</b>
<b>2016</b>	95.5	2.8	0.6	2.0	0.1	4.5	<b>105.5</b>
<b>2017</b>	93.2	2.9	0.5	2.0	0.1	4.7	<b>103.4</b>
<b>2018</b>	88.8	3.2	0.6	1.9	0.1	4.2	<b>98.8</b>
<b>2019</b>	87.2	3.9	0.6	2.0	0.2	4.0	<b>97.9</b>
<b>2020</b>	97.8	4.2	0.7	2.4	0.2	4.2	<b>107.5</b>
<b>2021</b>	95.5	4.1	0.7	2.2	0.2	4.2	<b>107.0</b>
<b>2022</b>	87.8	3.8	0.7	2.0	0.3	1.9	<b>96.5</b>
<b>2023</b>	84.5	3.8	0.6	2.0	0.3	2.0	<b>93.1</b>

Source: Bank of Albania, INSTAT, Financial Supervisory Authority

\*September 2023

The balance sheet of the banks grew by 2% y-o-y until the end of November'23. On the asset side all the growth was linked to a 7% annual increase in the stock of investments in securities. The stock of treasury and interbank exposures shrunk by 3% while annual growth in outstanding gross loans was 0%. About 32% of banks' securities holdings are foreign currency securities issued by non-residents. The remaining 68% are Albanian Government treasury bills and bonds, of which securities issued in national currency take up over 80% of the total amount of exposure. Assets in foreign currency dropped to 51% of total assets from 54% in November'22, as a result of a much stronger growth (by +8%) of assets in domestic currency compared to a 4% annual decrease in foreign currency assets. Claims of domestic banks to non-residents are equal to 22% of total assets and increased by 4% y-o-y in November. Banks' assets and liabilities in foreign currency are comparable in size, whereas claims on non-residents are about 11 times higher than liabilities to non-residents and the Albanian banking sector remains a net lender vis-à-vis non-residents.

The main source of funding for domestic banks is in the form of deposits, which stood at ALL 1,550 bn at end-November and grew by 3% y-o-y. Annual growth in foreign currency deposits, which has been significantly affected by the statistical effect of exchange rate movements, dropped to an annual average of 5% from an annual average of 15% in 2022. Domestic currency deposits grew by an average of 3% from January to November, and this performance was somewhat weaker compared to the 5% average growth in 2022. Growth in deposits over the 12 month period up to November'2023 was supported by growth in foreign currency demand deposits of the business sector and time deposits denominated in foreign and domestic currency of the household sector. The prolonged low interest rate environment has favored a faster growth in demand deposits and current accounts until 2020-2021, but in 2022 – 2023 the share of time deposits to the overall stock of deposits has stabilized around 43%. Although the interest rates for deposits in domestic currency are somewhat higher than the rates for deposits in foreign currency, the increase in time deposits was linked to the expansion of households' time deposits in foreign currency. Higher foreign currency inflows from abroad have also supported a moderate increase in the current accounts of businesses in foreign currency.

At the end of November '23, the stock of outstanding loans was ALL 720 bn, or unchanged from the level reported by banks at end November '22. The average annual growth in the stock of outstanding loans for the period January-November '23 was 2%. The growth in the outstanding loans expressed in domestic currency was negatively affected by the significant appreciation of the domestic currency in annual terms. Adjusted for the exchange rate effect the annual growth in the loans stock amounts to 6%. The flow of new loans granted over the first 11 months of 2023 was 10% higher than the flow of loans granted over the same period in 2022 and the best performing months were September, October and November, with October recording a 60% annual increase in the monthly new loans flows. Until the end of September, data showed some slowdown in

the rate of repayment of performing loans. The loan portfolios with the strongest increase until end November '23 were the outstanding loans in domestic currency (+11%), loans to households (+8%) and loans granted for the purchase of residential real estate (+40%). The stock of short and medium term loans shrank by 5-6% in annual terms and the stock of other long term loans declined by ca.20%. The stock of outstanding loans held by the business sector decreased by 3% in annual terms owing in large part to the accounting effect of the exchange rate in the foreign exchange section of the business loans portfolio. For three consecutive quarters until Q3-2023 banks have reported more relaxed lending standards and credit terms and conditions for households and businesses, supported by a more optimistic macroeconomic outlook. This approach has helped boost demand for loans especially in the household sector. Demand for loans is expected to remain robust over the last quarter of the year. Banks expect to tighten credit standards for households and to make no changes to the loan standards for the business sector in Q4.

The capital adequacy ratio of the banking sector, at 19.6%, remains well-above the regulatory minimum, and has increased by 0.4 p.p. from September 2022 to September 2023, owing to a faster decrease in risk-weighted assets compared to the slight decrease in the regulatory capital. The net result of the banking sector at end-November 2023 was positive (ALL 29 bn), and banks' profits were significantly higher compared to those of the same period in 2022, as a result of higher net interest income and notably lower losses from investments in financial instruments. Operational and provisioning expenses increased. The increase in net profits was reported by the majority of banks, with one bank recording a small negative result. RoA and RoE rose to 1.7% and 16.7% from 1% and 9.9% in November 2022 but the increase was more moderate compared to November 2021. Almost all the net profit was generated from banks' activity in foreign currency, for which banks have recorded significantly lower (3 times less) operational expenses compared to the activity in domestic currency. Over the course of 2023 banks have continued to increase their expenses on 'loss' loans provisions, to a level that was higher than that of 2022 and noticeably higher than the value reported in 2021. The results of the Solvency Stress Test for the 2023 – 2025 horizon show that the banking sector remains resilient to potential macroeconomic shocks, although some banks may need to increase their paid-in capital.

The quality of the banks' loans shows a slight deterioration in November 2023, with the nonperforming loans to total loans (NPL) ratio increasing to 5.1% from 5.0% in November 2022. This development reflects a faster growth in the stock of nonperforming loans compared to growth in total outstanding credit, especially in some specific loan portfolios such as domestic currency loans, long-term loans, loans to the business sector and loans for the sectors of trade, agriculture and tourism. The increase in the stock of nonperforming loans was driven by a shift of higher quality loans towards less performing classes and a lower volume of write-offs and repayments within the non-performing loans portfolio. The structure of non-performing loans is dominated by the category of lost loans (56%), while doubtful and substandard loans account for 16% and 28% of the total outstanding nonperforming loans.

### Macprudential supervision

Following the approval of the Macroprudential Policy Strategy document in 2017 that sets out an overall operational framework for the implementation of the MP in Albania Bank of Albania has adopted the Regulation "On Macroprudential Capital Buffers" (2019). This Regulation stipulates the method for setting the capital conservation buffer (CCoB), the countercyclical capital buffer (CCyB), the capital buffer for systemically important banks (SIB) and the systemic risk buffer (SyRB) for banks operating in Albania. All these buffers must be met with instruments of Core Equity Tier 1 capital (CET1), applied as additions to mandatory capital requirements, namely 'Pillar I + Pillar II + MREL', and they are expressed in percentage of risk weighted exposures. The Regulation foresees a gradual phasing-in of the macroprudential capital buffers. It is expected that by 2024 the combined macroprudential capital requirement will be fully loaded.

## Overview of phasing-in of macroprudential capital buffers in Albania

Macroprudential capital buffers	2020	2021	2022	2023	2024 forward
Capital conservation buffer				2%	2.5%
Bank specific CCyB rate { Countercyclical capital buffer (0-2.5%) }	0.5%	1%	1.5%	2.5%	3%
Capital buffer for systemically important banks (SIB)	0.625%	1.25%	1.875%	{0.5%;1%;1.5%;2%}	{0.5%;1%;1.5%;2%; 2.5%}
Bank specific SyRB { Systemic risk buffer (1-3%) }	1%	{1%; 1.5%}	{1%; 1.5%; 2%}	{1%; 1.5%; 2%; 2.5%}	{1%; 1.5%; 2%; 2.5%; 3%}

Source: Bank of Albania

Starting from 2020 banks have started to meet capital requirements with respect to the CCoB and SIB. While the CCyB instrument is active and operational, the rate has been set equal to zero since its introduction, as laid out in the Governor's decisions issued at the end of each quarter. Bank of Albania announces the list of systemically important banks and their specific SIB rate once a year at the end of the first quarter. In 2023, there were 4 banks as in the previous year that were evaluated as systemically important. The implementation of CCyB and SIB is supported by dedicated methodologies published on BoA's website. The compliance of banks with the capital buffer requirements stipulated in the Regulation are assessed quarterly by Bank of Albania through a special reporting package and a dedicated report. The systemic risk buffer (SRB) is not yet implemented, but in the future it can be used as a macroprudential tool to address the structural systemic risks.

With the aim of monitoring any vulnerabilities to financial stability arising from the exposures in the real estate sector, BoA has just approved (on October 4<sup>th</sup>, 2023) an act that will regulate the respective data reporting from the banking sector. The regulation "On data reporting, identification and monitoring of indicators of lending and investment in real estate" entered in force on October 28, 2023 and is in full compliance with the ESRB recommendation of 2014 and its amended version of 2019. Banks will provide BoA with information on their exposures on real estate starting from March 2024. The regulation will also provide BoA with the power to calibrate and implement borrower-based measures as macro-prudential instruments in the medium to long term.

#### Bank's resolution framework

- *Resolution planning and resolvability assessment*

The Law on the Recovery and Resolution of Banks in the Republic of Albania provides Bank of Albania with powers as the country's Resolution Authority, which aims to ensure an orderly resolution of failing banks, thus avoiding their negative impact on real economy, by not using tax-payers money, protecting covered deposits and clients' assets.

As the Resolution Authority, Bank of Albania, during 2022, has completed the full cycle of resolution plans for each bank operating in the Albanian banking market. By the end of 2022, a summary of individual resolution plan was delivered to each bank, focusing on each bank's strategic business analysis, minimum requirement for the regulatory capital instruments and eligible liabilities that banks should build to absorb losses and recapitalize, in case of resolution, as well as the resolvability assessment. During 2023, BoA has been working on the update of 2023 resolution planning cycle. It has reorganized the collection of information for resolution planning purposes in two parts, asking credit institutions (bank or the branch of a foreign bank)

to report the first batch of information templates (containing qualitative information) by the end of April 2023, while the rest of resolution planning templates containing quantitative information (Liability structure) to be reported by the end of July 2023. In addition to this, identification and assessment of critical economic functions and public interest assessment for 2023 resolution planning cycle is completed, accordingly.

With regard to minimum requirement for regulatory capital instruments and eligible liabilities, following the entry into force of the regulation 78/2020 "On the minimum requirement for regulatory capital instruments and eligible liabilities", Bank of Albania issued binding MREL targets by the end of 2021 for all banks. Pursuant to regulation 78/2020 there is a 6 year phase- in period for MREL. The first binding intermediate target was December 2022 while the final target is December 2027. According to September 2023 data, banks are in compliance with intermediate MREL target.

Bank of Albania has continued its work in strengthening the resolvability of banks. The two priorities for 2023 resolution planning cycle, relate to liquidity and funding in resolution and operational continuity in resolution. In this context, Bank of Albania carried out an on-site inspection at banks, aiming at strengthening their resolvability. As follow-up of these inspections, BoA prepared an inspection report, describing the ability of banks to resolve according to resolution strategy and the resolution tool selected, in the resolution plan. Bank of Albania issued a set of recommendations which needs to be met by banks, to minimize the potential impediments and enhance their resolvability.

In 2023, Bank of Albania was invited by Single Resolution Board to participate in resolution college meetings, for two banking groups with subsidiaries operating in Albania, in accordance with the cooperation arrangement between the Bank of Albania and Single Resolution Board (the "SRB"), signed in October 2018, which focuses on the exchange of information in connection with banking entities operating in Albania and the EU, enabling efficient resolution planning for entities with cross-border operations.

- *Regulatory and methodological framework*

Following the provisions of Regulation no.78/2020: "On the minimum requirements for regulatory capital instruments and eligible liabilities", Bank of Albania has updated the methodological document for 2023 planning cycle, to determine the way of calculating minimum requirements for regulatory capital instruments and eligible liabilities – MREL, for banks, based on SRB's (Single Resolution Board) MREL Policy of 2020.

- *Resolution Fund*

With regard to the Resolution Fund, the target funding level for the resolution fund is 0.5% of total liabilities of the banking sector (currently ALL 8 billion), calculated as the difference between the assets and capital of all banks licensed in Albania, to be reached by 2027. Banks in Albania pay annual contributions to the fund in line with the law and methodology of calculation established by the Bank of Albania. By the end of 2022, according to the Resolution Fund financial statements, the Resolution Fund stands at ALL 3.5 billion. During April 2023, all individual credit institutions (bank or the branch of a foreign bank) in Albania paid the annual contribution to the Resolution Fund, which totaled ALL 896.2 million.

Bank of Albania monitors regularly the performance of financial assets of the Resolution Fund, based on quarterly reporting of the Albanian Deposit Insurance Agency as the Resolution Fund Administrator, and according to the investment policy. The investment policy follows the principles of liquid assets, low credit risk debt securities and then reasonable high return on investments.

Over the period 2024-2026, the Bank of Albania will focus its activity on the following key areas:

- *Annual cycle of resolution plans*

The Bank of Albania updates every year the resolution plan for each bank. During 2024-2026, the annual plans will focus on the continuous strengthening of banks' resolvability. With a view to identify and address possible impediments to the resolvability, action plans will be drafted for each bank, focusing on:

- strengthening banks' governance with the focus on resolution,
- identifying the critical staff responsible of critical functions' continuity,
- assuring the adequacy of information and the information system,
- drafting contingency plans for the operational and financial continuity in resolution,

- meeting the target level of minimum requirements for regulatory capital instruments and eligible liabilities.

The Bank of Albania will monitor and support the strengthening of banks' resolvability, through an active communication and regular inspections, aimed at operationalizing the resolution plans.

- *Minimum requirements for regulatory capital instruments and eligible liabilities*

Bank of Albania will regularly update the methodology on determining the minimum requirement for regulatory capital instruments and eligible liabilities, by considering the capital requirement in force during each year, up to the final completion of the minimum requirement. Banking sector will gradually meet the minimum requirement on regulatory capital instruments and eligible liabilities, over the period 2024-2027.

- *Improving the regulatory and methodological framework*

The Bank of Albania is committed to harmonize the practices, in the field of resolution, regulatory and methodological framework, with developments in the European legislation. It will also extend its work in the operationalization of resolution tools with the support of supranational organizations, such as EBRD and FinSAC.

- *Monitoring the Resolution Fund*

Regarding the Resolution Fund, the Bank of Albania will calculate the target level and the annual contribution by banks and ensure the collection of annual contributions to meet the target level by 2027, as laid down in legal and regulatory framework. It will continue to monitor the investment of financial assets of the Fund, in accordance with investment policy in place.

### **3.3. Alternative scenarios and risks**

The baseline scenario is deemed to have a relatively high probability of materializing. However, the consideration of alternative scenarios, accounting for the potential realization of various risks surrounding the baseline, is a crucial aspect of public finance planning. Introducing alternative scenarios enhances the planning quality, allowing for more effective management of public funds in response to diverse potential situations. Briefly outlined below are two alternative scenarios, namely a "pessimistic" and an "optimistic" one. Each alternative scenario envisions the materialization of a specific set of negative risks (in the case of the "pessimistic" scenario) or positive risks (in the case of the "optimistic" scenario). These risks encompass potential deviations from the baseline scenario forecasts for key macroeconomic indicators, including lending to the economy, Eurozone economic performance with subsequent effects on exports of goods and services, remittances, various foreign capital flows, exchange rates, interest rates, the pace and impact of planned structural policy reforms for the medium-term period ahead, etc.

For the sake of analytical simplicity, all assumed negative or positive risks are consolidated into a single variable, denoted as "real economic growth". As a result, the alternative scenarios are constructed with varied economic growth assumptions for each year spanning from 2024 to 2026, deviating from the baseline. In both this section and the corresponding Section 4.7 (Sensitivity Analysis), the simulation time horizon is extended up to 2026 to offer a more comprehensive and actionable insight under each alternative scenario. The provided table delineates the assumptions regarding "real growth" in the alternative scenarios, presenting derived figures for nominal growth and nominal GDP levels. Furthermore, the table encompasses assumed implications on specific key fiscal variables, detailed in Section 4.7 to facilitate a more nuanced understanding.

We accord considerably more significance to the "pessimistic" scenario and the potential coping strategies under its implications. There is an asymmetric introduction of a more substantial negative shock in this scenario, in contrast to the relatively smaller positive shock introduced in the "optimistic" scenario. In the "pessimistic" scenario, we assume a 1.5 percentage point lower real GDP growth in each year (2024-2026) compared to the corresponding growth projections in the "baseline". Conversely, in the "optimistic" scenario, we assume a 0.5 percentage point higher real growth in each year than the respective forecasts in the "baseline" scenario.



Table 3.3.1: Alternative assumptions in each scenario

	2018	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.
<b>Real GDP growth (%)</b>									
<i>Baseline</i>	4.0	2.1	-3.3	8.9	4.9	3.5	3.7	3.9	4.0
<i>Pesimistic</i>							2.2	2.4	2.5
<i>Optimistic</i>							4.2	4.4	4.5
<b>Nominal GDP growth (%)</b>									
<i>Baseline</i>	5.6	3.4	-2.6	12.7	15.2	8.1	5.3	5.1	5.2
<i>Pesimistic</i>							3.5	3.2	3.4
<i>Optimistic</i>							5.8	5.6	5.7
<b>Nominal GDP (billion Lek)</b>									
<i>Baseline</i>	1,636.7	1,691.9	1,647.4	1,856.2	2,138.3	2,311.7	2,434.3	2,557.7	2,690.5
<i>Pesimistic</i>							2,392.0	2,469.7	2,552.8
<i>Optimistic</i>							2,446.0	2,582.4	2,729.5
<b>Total revenue (% of GDP)</b>									
<i>Baseline</i>	27.5	27.2	25.9	27.5	26.8	28.0	27.8	27.8	27.8
<i>Pesimistic</i>							27.3	27.3	27.3
<i>Optimistic</i>							27.8	27.8	27.8
<b>Total revenue y-o-y growth (%)</b>									
<i>Baseline</i>	4.5	2.3	-7.5	20.0	12.1	13.0	4.5	5.0	5.4
<i>Pesimistic</i>							0.8	3.2	3.5
<i>Optimistic</i>							5.2	5.5	5.9
<b>Total revenue (billion Lek)</b>									
<i>Baseline</i>	449.9	460.3	425.9	511.0	572.8	647.2	676.1	709.8	747.9
<i>Pesimistic</i>							652.4	673.0	696.8
<i>Optimistic</i>							680.6	718.0	760.1
<b>Effective interest rate of public debt (%)</b>									
<i>Baseline</i>	3.5	3.3	3.2	3.0	3.0	3.9	4.4	4.8	5.3
<i>Pesimistic</i>							4.4	4.8	5.3
<i>Optimistic</i>							4.4	4.8	5.3
<b>Nominal exchange rate, end-year (Lek/Euro)</b>									
<i>Baseline</i>	123.5	122.2	123.5	120.8	114.9	110.0	110.0	110.0	110.0
<i>Pesimistic</i>							110.0	110.0	110.0
<i>Optimistic</i>							110.0	110.0	110.0

Source: Ministry of Finance and Economy, (December 2023)



## 4. FISCAL FRAMEWORK

### 4.1. Policy strategy and medium-term objectives

After a substantial stimulus to implement a necessary expansionary fiscal policy during the years 2020 and 2021, aiming to offset the negative shocks (i.e. from the earthquake and especially the pandemic), fiscal policy clearly shifted towards consolidation during the years 2022 and 2023. Fiscal consolidation will continue to be the fundamental objective of fiscal policy for the medium-term period of 2024-2026, directly contributing to ensuring the macroeconomic stability of the country as an essential premise for a relatively high, sustainable and inclusive economic growth. The overarching goal of fiscal policy will be a continuous gradual decline public debt to GDP each year, with the key operational objective of maintaining at least a neutral (or positive) level of the primary balance from the year 2024 onwards. This operational objective serves as a pivotal anchor for fiscal policy in the medium and long term, aligning with the stipulations of the Organic Budget Law and emphasizing a commitment to sound fiscal rules.

#### **Explanatory Box: Primary balance, the main anchor of fiscal policy**

The primary balance stands as a crucial parameter for the long-term sustainability of public finances. In July 2020, a significant legal initiative was undertaken, introducing a new fiscal rule within the Organic Budget Law (OBL) in adherence to the recommendations of the European Commission and the fundamental principles of the EU acquis. This rule establishes a legal obligation that, starting from the budget year 2024 onward, the actual primary balance cannot be negative; it must be, at a minimum, balanced or positive (primary surplus). This specified target for the budgetary primary balance parameter will constitute the main operational objective of fiscal policy, both in the present and the future, embodying the pursuit of a consistently declining trajectory of public debt. The overarching goal is to facilitate continuous fiscal consolidation, ensuring the sustainability of public finances as a cornerstone for macroeconomic stability and the overall well-functioning of the country's economy.

The primary balance is projected at an average of around 0.6 percent per year over the upcoming medium-term period (2024-2026). We are targeting a surplus of 0.2 percent of GDP for 2024, projected to expand further to 0.8 percent in 2025 and reaching 0.9 percent in 2026.

Consequently, this commitment to fiscal prudence is expected to steer the gross public debt on a downward trajectory, aligning with the respective “debt-brake” fiscal rule. Anticipated figures for 2023 indicate a decline in public debt to around 61.5 percent of GDP (or less) from approximately 64.5 percent in 2022. The trend is set to persist, with an expected further reduction to approximately 59.8 percent in 2024. According to the baseline scenario, public debt is expected to decrease to around 58.9 percent by 2026, with a subsequent decline to approximately 52.7 percent by 2031.

At the same time, alongside the commitment to fiscal consolidation, we will strive to maintain a prudent balance between current and capital budget expenditures. Specifically, the central government's capital expenditures, encompassing the bulk of public investments, will be targeted at an annual average of 5.0 percent of GDP throughout the period 2024-2026. This allocation is deemed essential to underpin economic growth in both the medium and long term. In tandem, the overall budget deficit is targeted to average 2.2 percent per year during this timeframe. Therefore, underpinning our fiscal strategy is the dedication to maintaining a positive current fiscal balance, aligning with the stipulations of the “golden rule” of the budget. The current fiscal balance, calculated as the difference between public investment and the fiscal deficit, is expected to be positive in each year and averaging at +2.7 percent of GDP per year over the medium-term span from 2024 to 2026. More precisely, the overall fiscal balance is targeted at -2.5 percent for the year 2024, followed by targets of -2.1 percent for both 2025 and 2026. Concurrently, the capital expenditures are earmarked at 5.3 percent, 4.8 percent, and 4.8 percent respectively for the years 2024, 2025, and 2026. Consequently, the targeted current fiscal surplus stands at 2.8 percent for 2024, with projections of 2.8 percent and 2.6 percent for 2025 and 2026, respectively.

### Explanatory Box: Compliance with Fiscal Rules

In full compliance with the obligations arising from the Organic Budget Law (OBL) No. 9936/2008, as amended, the fiscal framework for the period 2024-2026 materializes the following fiscal principles and rules:

1. **"Debt-brake" rule:** *In each annual budget law, whether initial or revised, as well as in the medium-term budget planning, the ratio of public debt to GDP shall be planned lower than the estimated level of the preceding year, until the debt level reaches and remains below 45 percent of GDP.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2024-2026 targets a total public debt level as a percentage of GDP lower than the preceding year's level each year.

2. **"Primary balance" rule:** *In each budgetary year starting from 2024 and onwards, the actual primary balance cannot be negative; it must be at least neutral or positive (primary surplus).*

In accordance with this provision of the OBL, the fiscal framework for the period 2024-2026 targets a positive primary balance of 0.2 percent in 2024, 0.8 percent in 2025 and 0.9 percent in 2026.

3. **"Golden" rule:** *The annual amount of the budget deficit cannot exceed the annual amount of capital expenditure, approved each year in the budget law.*

In accordance with this provision - "golden rule" – of the OBL, the annual deficit targets in the fiscal framework for the period 2024-2026, are lower than the planned capital expenditure. Consequently, the targeted current fiscal balance is positive for each programmed year, averaging +2.7 percent of GDP.

4. **Prudent macroeconomic projections:** *The nominal GDP value in Albanian Lek, which will be used for calculating the public debt-to-GDP ratio for the budgetary years being planned and for the preceding year, cannot be higher than the respective value forecasted or evaluated in the "World Economic Outlook" report of the IMF, the latest published at the time the annual budget law is submitted for approval in the Parliament. This is clearly documented in the accompanying report of the annual budget law.*

In accordance with this provision (fiscal rule) of the OBL, the 2024-2026 framework relies on the following nominal GDP projections, which are not higher than the projections of the World Economic Outlook report of IMF, most recently published in October 2023.

Forecasted nominal GDP of the MFE and IMF			(ALL billion)			
	2021	2022	2023 Fcst.	2024 Fcst.	2025 Fcst.	2026 Fcst.
<b>MFE</b>	1,856.2	2,138.3	2,311.7	2,434.3	2,557.7	2,690.5
<b>IMF - Wold Economic Outlook</b>	1,856.2	2,138.3	2,312.5	2,476.6	2,639.3	2,811.8
<b>Difference MFE - IMF</b>	<b>0.0</b>	<b>0.0</b>	<b>-0.8</b>	<b>-42.3</b>	<b>-81.5</b>	<b>-121.3</b>
(the difference of the forecasted values should not be higher than zero)						

5. **Contingency Planning:** *In each planned budgetary year, a special contingency of no less than 0.7 percent of total budget expenditures must be included to compensate potential risks from fluctuations in exchange rates or interest rates affecting the debt level.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2024-2026 includes for each year, in a separate item, named "Contingency on interest rate fluctuations, etc.", a contingency of no less than 0.7 percent of total expenditures.

6. **Privatisation revenues:** *Revenues from privatization are not part of the budget planning. In case of their collection, they are used not less than 50% for reducing the public debt, and the remaining part for investments.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2024-2026 does not include revenues from potential privatizations.

1. Link to access the WEO report - <https://www.imf.org/en/Publications/WEO/Issues/2023/10/10/world-economic-outlook-october-2023>

## 4.2. Budget implementation in 2023

### *Income for the period January - September 2023*

The total tax revenues for the period January-September 2023 is 440.4 billion ALL, 8.6% or 35 billion ALL more than the 9th month of 2022. From the total revenue, the revenue collected from "taxes and customs" (including the contributions collected by DPT) for the 9th month of 2023, were realized in the amount of 415 billion ALL, 9.2% or 35.1 billion ALL more than the 9th month of 2022 and 2.8% or 11.2 billion ALL more than the initial 9-month plan of the year 2023.

Table 4.2.1: Total revenue from taxes and customs (in million ALL)

Tax type	Fact 9M 2023	Initial plan 9M 2023	The difference Fact / Initial plan 9M 2023	
			Value	%
Total net VAT	143,569	151,256	-7,687	-5.1%
Income tax	44,935	35,527	9,408	26.5%
Excise duty	43,114	43,575	-461	-1.1%
Personal income tax	43,819	37,232	6,587	17.7%
Total National Taxes	30,315	37,820	-7,505	-19.8%
Customs Tax	6,700	6,315	385	6.1%
<b>TOTAL TAX + CUSTOMS</b>	<b>312,452</b>	<b>311,725</b>	<b>727</b>	<b>0.2%</b>
Social and health insurance contributions collected by GDT	102,551	92,099	10,452	11.3%
<b>TOTAL DPD + DPT (Contributions)</b>	<b>415,003</b>	<b>403,824</b>	<b>11,179</b>	<b>2.8%</b>

Source: Ministry of Finance and Economy (2023)

The main factors that have influenced the positive 9-month progress compared to the initial plan are:

- Fiscalization, the fight against informality and the control of the chain of transactions between operators.
- Expansion of economic activity, supported by the good performance of the private sector.
- The increase in income from contributions as a result of the increase in the minimum and maximum salary on which contributions are calculated, the reform in the field of salaries as a result of which salaries have increased, consequently also public sector insurance contributions, as well as due to the reduction of informality in the field of salary declaration from the private sector

The revenue from the General Directorate of Customs for the 9th month of 2023 has collected ALL 159.8 billion, with a decrease compared to 2022, in the amount of ALL 4.6 billion or 2.8% less and with non-realization compared to the initial plan in the amount of 7.8%.

Table 4.2.2: Revenues collected by the General Directorate of Customs (in million ALL)

Tax type	Fact 9M 2023	Initial Plan 9M 2023	The difference Fact / Initial Plan 9M 2023	
			value	%
VAT on import	107,725	120,040	-12,315	-10.3%
Excise duty	43,114	43,575	-461	-1.1%
Mining rent	2,276	3,492	-1,216	-34.8%
Customs tax	6,700	6,315	385	6.1%
<b>TOTAL DPD</b>	<b>159,815</b>	<b>173,422</b>	<b>-13,607</b>	<b>-7.8%</b>

Source: Ministry of Finance and Economy (2023)

The income from the "VAT" on imports are realized in the amount of 107.7 billion ALL, with non-realization in the amount of 10.3% compared to the initial plan of the period. Revenues from VAT on imports have been significantly impacted in 2023 by strong changes in the exchange rate, which have reduced the VAT calculation base for imported goods. The increase in VAT due to the increase in the volume of import of goods has not compensated for the significant decrease in VAT due to the reduction of the VAT calculation base as a result of the devaluation of the euro and the dollar.

The income from "Excise" was realized in the amount of 43.1 billion ALL, with non-realization compared to the initial plan in the amount of 1.1%.

The income from "Mining Rent" in export are realized in the amount of 2.3 billion ALL, with non-realization in the amount of 34.8% compared to the initial plan. Compared to last year, revenues from mining rents for crude oil have decreased as a result of the decrease in the amount of crude oil production, which for the 9th month of 2023 is 6.2% less than last year with the effect of -159 million ALL, but at the same time the reduction of the price per unit of crude oil in the international markets from 5.7 ALL to 4.07 ALL, has brought an effect of -688 million ALL. Meanwhile, revenues from mining rents have decreased even though the amount of mineral production exported for the 9th month of 2023 has increased 12.6% more than last year with an effect of 93.6 million ALL, but at the same time the price per unit of crude oil in international markets from 0.59 ALL to 0.39 ALL, has brought an effect of -281 million ALL.

The income from "Customs Tax" are realized in the amount of 6.7 billion ALL, with realization in the amount of 6.1% more than the initial plan of the period. The largest weight in the customs tax is occupied by products such as construction material (38%), foot and head clothing (27%), detergent, perfumery (13%).

The revenues collected by the General Directorate of Taxes (including social and health insurance contributions collected by DPT) for the period January-September 2023 are 255.2 billion ALL, with a realization of 110.8% of the initial annual plan and 18.4% or 39.7 billion lek more than the same period of the previous year. The table below shows detailed data on tax performance.

Table 4.2.4: Revenue collected by GDT (in million ALL)

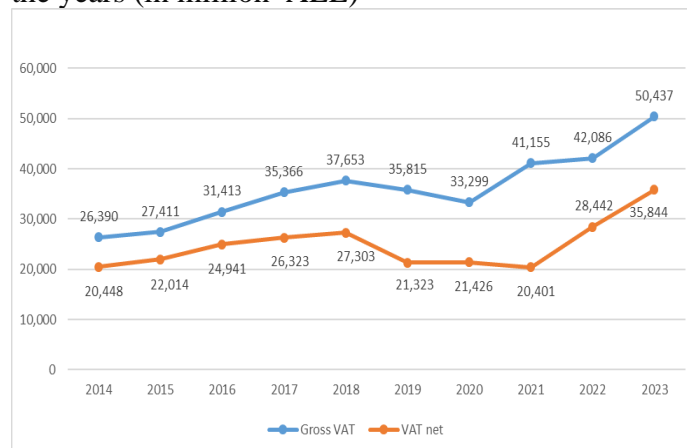
Tax type	Fact 9M 2023	Initial plan 9M 2023	The difference Fact / Initial Plan 9M 2023	
			Value	%
VAT NET	35,844	31,216	4,628	14.8%
VAT collected	50,437	44,516	5,921	13.3%
VAT refund	14,594	13,300	1,294	9.7%
Income tax	44,935	35,527	9,408	26.5%
Personal income tax	43,820	37,232	6,588	17.7%
Taxes national	28,039	34,328	-6,289	-18.3%
<b>Total</b>	<b>152,637</b>	<b>138,303</b>	<b>14,334</b>	<b>10.4%</b>
Social and health insurance contributions collected by GDT	102,551	92,099	10,452	11.3%
<b>TOTAL DPT+ Contributions</b>	<b>255,187</b>	<b>230,402</b>	<b>24,785</b>	<b>10.8%</b>

Source: Ministry of Finance and Economy (2023)

The net incomes from VAT are in the amount of ALL 35.8 billion, with a realization of 114.8% against the initial plan and 7.4 billion ALL or 26% more than 9 months 2022. In the period January-September 2023, the amount of VAT refunded is 14.6 billion ALL, 7% or 950 million ALL more than the same period of 2022 as well as 1.3 billion ALL or 9.7% more than the VAT refund plan for the 9th month of 2023. The sectors with the largest contribution to it VAT revenues, compared to the 9th month of 2022, are:

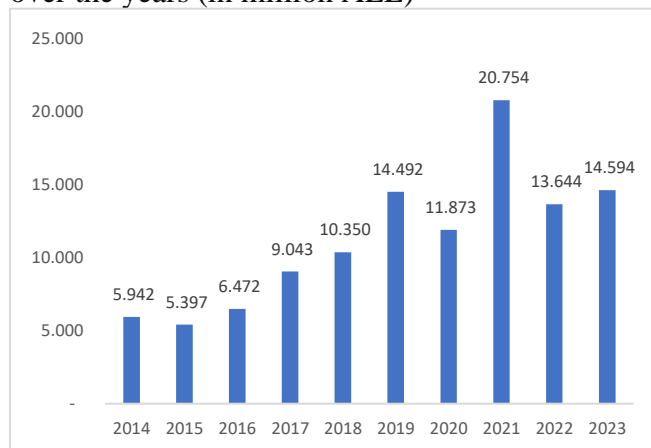
- In the services sector, revenues for the period January - September 2023 are 14.2 billion ALL with an increase in revenue of 13% or 1.6 billion ALL more than the same period of 2022.
- In the production sector, the income for the period January - September 2023 is 8.6 billion ALL with an increase in income of 28% or 1.9 billion ALL more than the same period of 2022.
- In the construction sector, the income for the period January - September 2023 is 6.7 billion ALL with an increase in income of 24% or 1.3 billion ALL more than the same period of 2022.
- In the transport sector, the income for the period January - September 2023 is 982 million ALL with an increase in income of 44% or 298 million ALL more than the same period of the year.
- In the trade sector, the income for the period January - September 2023 is 12.6 billion ALL with an increase in income of 15% or 1.7 billion ALL more than the same period of 2022.

Graph 4.2.5: Progress of VAT during 9 months over the years (in million ALL)



Source: Ministry of Finance and Economy (2023)

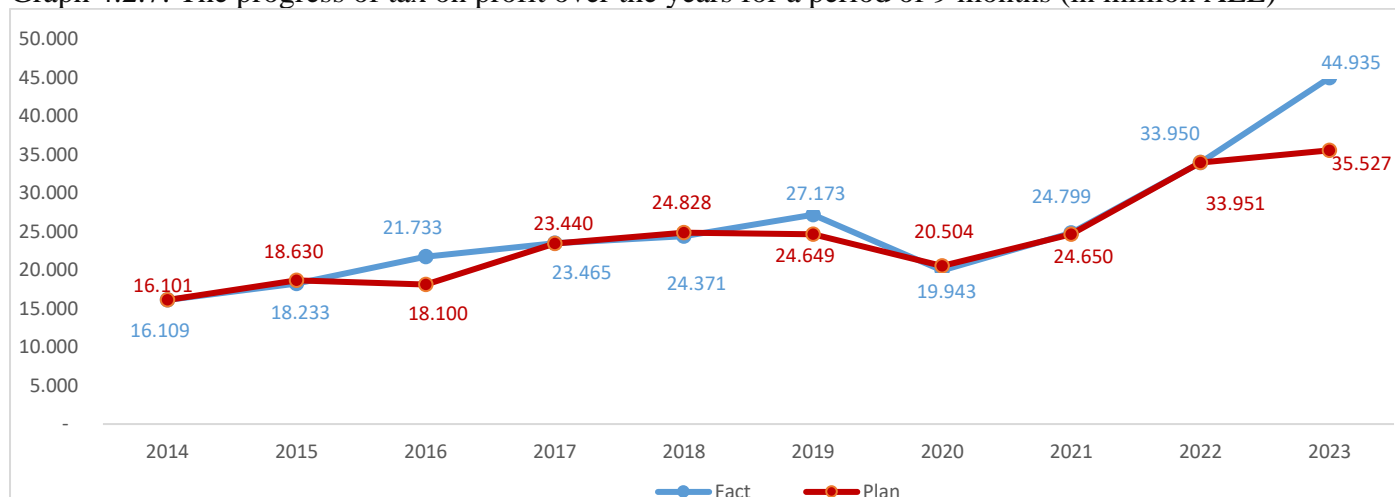
Chart 4.2.6: VAT refunds for the 9-month period over the years (in million ALL)



Income from "Profit Tax" are realized in the amount of ALL 44.9 billion, with realization 26.5% more or 9.4 billion ALL more than the initial plan of the period. From the analysis of profit tax by sector compared to the previous year, it follows:

- In the services sector, the income for the period January - September 2023 is 16.5 billion ALL with an increase in income of 13% or 1.9 billion ALL more than the same period of 2022.
- In the production sector, the income for the period January - September 2023 is 10.2 billion ALL with an increase in income of 28% or 2.3 billion ALL more than the same period of 2022.
- In the construction sector, the income for the period January - September 2023 is 7.5 billion ALL with an increase in income of 24% or 1.5 billion ALL more than the same period of 2022.
- In the transport sector, the income for the period January - September 2023 is 1.1 billion ALL with an increase in income of 45% or 352 million ALL more than the same period of the year.

Graph 4.2.7: The progress of tax on profit over the years for a period of 9 months (in million ALL)



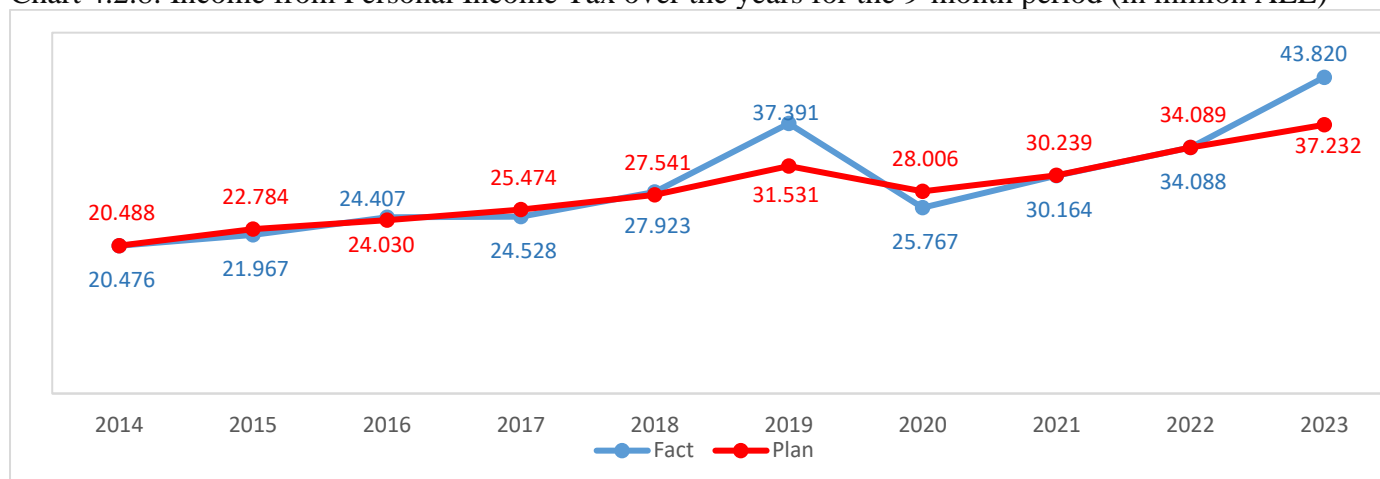
Source: Ministry of Finance and Economy (2023)

Personal income tax is collected in the amount of 43.8 billion ALL, 9.7 billion ALL or 28.5% more than the 9th month of 2022, as well as 6.6 billion ALL or 17.7% more than the initial plan of the 9th month of 2023.

The main weight for the period January - September 2023 in the Personal Income Tax is in the items such as:

- The service sector with the highest revenue generation for the period worth ALL 17.2 billion for 2023 or as much as 69% of the total collected.
- Trade sector with income of 2.6 billion ALL or 11% of the total received.
- The production sector with an income of 3.3 billion ALL or 13% of the total received.
- The transport sector with an income of 761 million ALL or 3% of the total collected.
- Construction sector with an income of 1 billion ALL or 4% of the total received.

Chart 4.2.8: Income from Personal Income Tax over the years for the 9-month period (in million ALL)

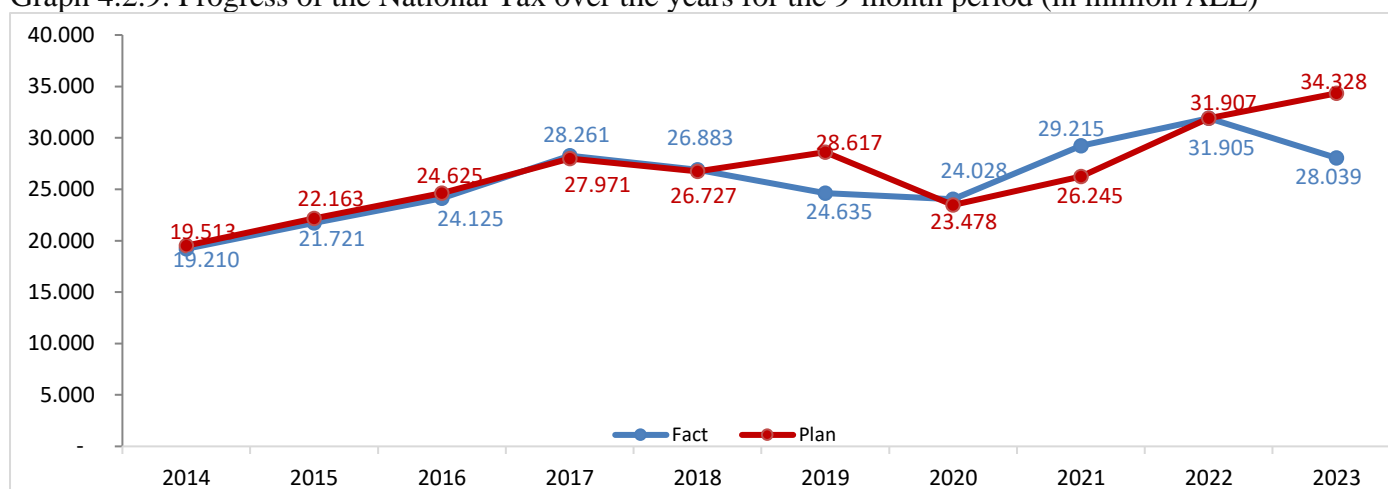


Source: Ministry of Finance and Economy (2023)

The income from "National Taxes" are realized in the amount of 28 billion ALL, with non-realization in the amount of 18.3% of the initial plan of the period. The main weight in the income is the circulation tax with 51%, the annual tax of used means of transport with 15%, while the packaging tax + carbon tax + gambling tax with about 18%.

- Significant impact on national tax collections for the 9th month of 2023 resulted in:
- Turnover tax with income in the amount of 14.7 billion ALL with an increase from last year with 970 million ALL or 7.1% more than the 9th month of 2022.
- Revenues from the annual tax of used means of transport amounted to ALL 4.4 billion with an increase from last year by ALL 349 million or 8.6% more than the same period of 2022.
- The carbon tax was realized in the amount of 1.9 billion ALL with an increase from last year with 125 million ALL or 7.2% more than the same period of 2022.

Graph 4.2.9: Progress of the National Tax over the years for the 9-month period (in million ALL)

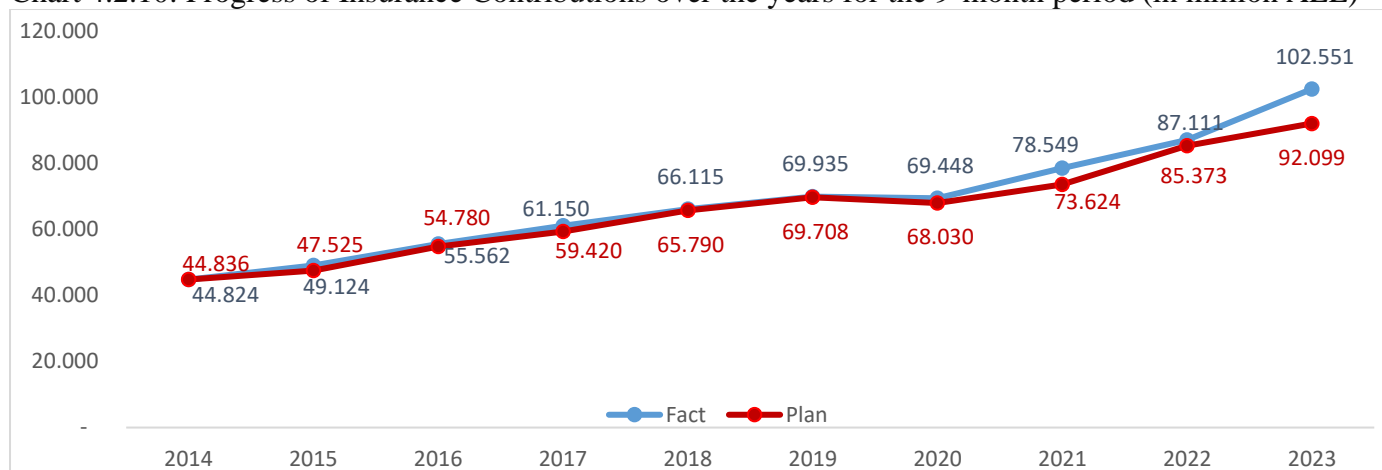


Source: Ministry of Finance and Economy (2023)

The income from Social and health insurance contributions collected by GDT, is realized in the amount of 102.6 billion ALL, with realization in the amount of 11.3% more than the initial plan of the period. The income of insurance contributions according to sectors for the period January - September 2023 results:

- The service sector with the highest generation of income from contributions worth ALL 61.1 billion.
- Trade sector with an income of ALL 15.8 billion. The production sector with an income of ALL 16.3 billion.
- The construction sector with an income of ALL 6.4 billion.
- The transport sector with an income of 3 billion ALL.

Chart 4.2.10: Progress of Insurance Contributions over the years for the 9-month period (in million ALL)



Source: Ministry of Finance and Economy (2023)

### ***Expenditures for the period January-September 2023***

*General Public Expenditures*, for the nine-month period of 2023, reached the level of about ALL 425.9 billion, with a realization of 92.3 percent of the period's plan. Compared to the same period of 2022, this item resulted 3.9 percent higher or about ALL 16.03 billion more. In annual terms, total expenditures for the 9-month period of 2023, were realized at 61 percent of the annual plan.

*Current expenditures*, for the 9-month period of 2023, reached the level of about ALL 379.5 billion or 98 percent of the period's plan. Compared to the same period of the previous year, this item resulted 10.6 percent higher or about ALL 36.4 billion more. *In annual terms*, current expenditures for the 9-month period of 2023 resulted 69.4 percent of the annual plan.

The main items that affected the realization of current expenditures, are respectively:

- Subsidies expenditures: 127.8 percent of the period's plan and 70.3 percent of the annual plan.
- Other social expenditures: 105.5 percent of the period's plan and 72 percent of the annual plan.
- Personnel expenditures: 102 percent of the period's plan and 74.7 percent of the annual plan.

*Personnel expenditures*, for the nine-month period of 2023, represented 19.1 percent of the total current expenditures. Their actual level of about ALL 72.4 billion, realizes the forecasted level for this item in the 9-month period, at 102 percent. Compared to the same period of 2022, this item resulted 16.7 percent higher or about ALL 10.4 billion more. In annual terms, this item resulted 74.7 percent of the annual plan.

- Wages expenditures at the end of September 2023, were realized at about ALL 61.7 billion or 104.1 percent of the period's plan. Compared to the same period of 2022, this item results 16.5 percent higher or about ALL 8.8 billion more. In annual terms, wages expenditures resulted 77.1 percent of the annual plan.
- Expenditures for social security resulted at about ALL 10 billion or 100.4 percent of the period's plan. Compared to the same period of 2022, this item results 14.9 percent higher or ALL 1.3 billion more. In annual terms, expenditures for social security resulted 74.5 percent of the annual plan.

*Interest expenditures*, for the nine-month period of 2023, represented 9.2 percent of the total current expenditures. Their actual level of about ALL 34.8 billion, realizes the forecasted level for this item in the 9-month period, at 89 percent. Compared to the same period of 2022, this item resulted 16 percent higher or about ALL 4.8 billion more. In annual terms, this item results 57 percent of the annual plan.

*Operational and Maintenance expenditures*, for the nine-month period of 2023, resulted about ALL 42.4 billion, or 97.5 percent of the period's plan. In annual terms, this item results 65.1 percent of the annual plan. Compared to the same period of 2022, this item resulted 10.2 percent higher or about ALL 3.9 billion more.

*Subsidies expenditures*, for the 9-month period of 2023 resulted at about ALL 1.1 billion or 127.8 percent of the period's plan. In annual terms, this item results 70.3 percent of the annual plan. Compared to the same period of 2022, this item resulted 27.7 percent higher or ALL 244 million more.



*Expenditures for Special Funds* for the nine-month period of 2023 resulted about ALL 161.4 billion, with a realization of 98.4 percent of the period's plan or 71.3 percent of the annual plan. Respectively:

- Social insurance expenditures resulted about ALL 122.3 billion, with a realization of 102.5 percent of the period's plan or 75.7 percent of the annual plan.
- Health insurance expenditures resulted about ALL 38 billion, with a realization of 98.1 percent of the period's plan or 69.8 percent of the annual plan.
- Expenditures for owners' compensation resulted at about ALL 1.02 billion, with a realization of 28 percent of the period's plan or 22.7 percent of the annual plan.

Compared to the same period of 2022, social insurance expenditures resulted about ALL 8 billion more, health insurance expenditures ALL 978 million more and expenditures for owner's compensation at ALL 203 million less.

*Other social expenditures* for the nine-month period of 2023 resulted about ALL 21.6 billion, with a realization of 105.5 percent of the period's plan or 72 percent of the annual plan. Respectively:

- Unemployment Expenditures resulted about ALL 636 million or 94.1 percent of the period's plan. In annual terms, unemployment expenditures for the nine-month period of 2023 resulted 70.7 percent of the annual plan. Compared to the same period of 2022, this item resulted in an increase of 15.1 percent or ALL 84 million more.
- Expenditures for Social Assistance and Disability Payment resulted about ALL 17.8 billion or 100.7 percent of the period's plan. In annual terms, this item results 68.4 percent of the annual plan. Compared to the same period of 2022, this item resulted 3.5 percent higher or about ALL 593 million more.
- Expenditures for compensation for ex-political prisoners resulted about ALL 842 million or 146.7 percent of the period's plan. In annual terms, this item resulted 84.2 percent of the annual plan. Compared to the same period of 2022, this item resulted 47.7 percent higher or ALL 272 million more.
- Expenditures for the birth bonus for the nine-month period of 2023 resulted at ALL 2.4 billion or 149 percent of the period's plan. In annual terms, this item results 109 percent of the annual plan, with changes. Compared to the same period of 2022, this item resulted 4.3 percent higher or ALL 100 million more.

*Expenditures for Local Government* for the nine-month period of 2023, represented 12 percent of the total current expenditures. Their actual level of about ALL 45.7 billion, realizes the forecasted level for this item in the nine-month period at 94.5 percent or 69.7 percent of the annual plan. Compared to the same period of 2022, this item results 18.8 percent higher or about ALL 7.2 billion more.

*Capital expenditures*, for the nine-month period of 2023, reached the level of about ALL 46.4 billion or 71.2 percent of the period's plan. Compared to the same period of 2022, this item results 9 percent lower or about ALL 4.6 billion less. Respectively:

- Domestic financing for the 9-month period of 2023 reached the level of about ALL 33 billion or 110.2 percent of the period's plan. Compared to the same period of 2022, this item resulted 31.4 percent higher or about ALL 7.9 billion more.
- Investments from Higher Education revenues reached the level of ALL 404 million, resulting 68.2 percent of period's plan. Compared to the same period of 2022, this item resulted 25 percent lower or ALL 134 million less.
- Foreign financing reached the level of about ALL 7.9 billion, resulting 26.8 percent of the period's plan. Compared to the same period of 2022, this item resulted 32 percent lower or about ALL 3.7 billion less.

*In annual terms*, capital expenditures for the nine-month period resulted 37.4 percent of the annual plan. Respectively:

- Domestic financing resulted 45.7 percent of the annual plan.
- Investments from Higher Education revenues resulted 40.4 percent of the annual plan.
- Foreign financing resulted 17.3 percent of the annual plan.

*Reconstruction fund* for the 9-month period of 2023 reached the level of about ALL 5 billion, resulting 100 percent of the period's and annual plan. Compared to the same period of 2022, this item resulted 63.4 percent lower or about ALL 8.7 billion less.



*The level of surplus* for the nine-month period of 2023 resulted about ALL 51.4 billion from about ALL 8.5 billion planned. Compared to the same period of 2022, the level of surplus for the 9-month period of 2023 resulted about ALL 35.1 billion more.

#### **4.3. Budget plans for the ERP submission year**

The programming of budget revenues for 2024 supports the objectives of the Ministry of Finance and Economy for increasing revenues, and mainly those generated by the tax system, in order to support public expenditures for education, health, social protection, increasing salaries and pensions, investments in infrastructure, agriculture, energy and other directions that generate development and income. At the same time, fair programming of revenues aims to support the planning of appropriate levels of the budget deficit, the primary one, as well as the control and gradual reduction of the public debt.

This program is based on improving tax policies and fiscal administration, expanding the tax base and minimizing informality in the country's economy. The income program also takes into consideration factors that may impact economic developments in 2024, including possible risks that may appear (inflation, currency exchange rates and their impact on imports and exports, prices, investments, electricity etc.).

In the programming of revenues from Taxes, Customs and Insurance Contributions for 2024, the main factors influencing the budget have been taken into consideration, including the expected effect of economic growth and the price index on these revenues, new fiscal policies as well as the effects of improving the tax and customs administration, including the fight against informality, accompanied by legal improvements, in order to increase the level of voluntary compliance of taxpayers with the law.

#### ***Revenue forecast by tax for 2024***

*The income from "VAT"* is expected to be around 211.2 billion ALL, 11.2 billion ALL or 5.6% more than expected for 2023. Sources of VAT growth in 2024 include:

- The increase in VAT revenue generated by additional economic growth and the price index;
- Focusing on increasing income from expanding sectors such as tourism, accommodation and all other sectors of the economic chain that supply tourism;
- Improvement of VAT administration from the fiscalization system and consolidation of electronic invoicing.

*Income from the "Profit Tax"* is programmed to be +3 billion or 6% more compared to the expectation of 2023 (stripped of the one-off factor, the special tax on electricity producers). The corporate income tax forecast for 2024 is based on:

- The declaration in March 2024 of the financial balances of 2023, a year in which, based on the economic parameters identified as the increase in turnover, the economic operators have realized high incomes and profits, which will be reflected in the payments of the obligations of tax on profit from industries such as tourism, construction, etc. have had an increase and flow of income.
- Strengthening the control of statements, based on risk criteria.
- Effects of the 2024 fiscal package.

*Incomes from "Excise"* are programmed at 63.6 billion ALL, + 4.6 billion ALL or +7.8% more than expected in 2023. The main factors in the forecast of revenue from excise are related to:

- the increase in the level of excise duties due to the indexation and the implementation of the increase scheme for tobacco;
- the increase in the amount of import, domestic production and consumption of hard goods such as fuel, cigarettes, alcoholic beverages, wine, beer, etc., also due to the very large increase in the flow of tourists in the country;
- strengthening the fight against informality, through rigorous control of excise entities;
- reduction of exemptions and refunds from this tax;
- the effects of the fiscal package that foresees the increase of the excise duty on cigarettes according to the chart and the indexation of the excise duty of other products according to the methodology in force.

*Income from "Personal Income Tax"* is foreseen to be ALL 65.2 billion, with an increase of +9.2 billion ALL or +16.4% more than the expectations for 2023. In the forecast of income from personal income tax, the following were taken into consideration:

- the effects of the wage reform in the state sector, the increase of which will generate additional income from the tax on wages;
- the increase in the number of employees and the average salary in the private sector, which due to the movements is obliged to follow the increase in the salary increase in the state sector;
- increase in income from other categories such as tax on dividends, tax on leasing, tax on professional services businesses, etc.;
- increase in income from the inclusion in the scheme of taxing income from tourism and accommodation of entities that are not registered and declared as accommodation units.

*The incomes from "National and other taxes"* are programmed at the level of 44.3 billion ALL. The forecasts for this tax for the year 2024 are +8% or +3.3 billion lek more than the expected 2023, effects expected to come from economic growth as a whole, new gambling licensing taxes, increased fuel consumption that generates turnover and carbon taxes, etc.

*The income from "Customs Tax"* in 2024 is programmed to be 9 billion ALL, with an increase of + 0.2 billion ALL or 2.5% more than expected for 2023. In the programming of the revenue, the effects of the increase in taxable imports have been taken into consideration. as well as some minimal effects from the movement of customs tariffs.

*The total income from "Social and Health Insurance Contributions"* is programmed to be ALL 156.7 billion, an increase compared to 2023 for + ALL 13.3 billion, or + 9.3%. The programmed increase in income is based on these factors:

- projected economic growth with effect on employment and contributions;
- effects from the increase in salaries and contributions as a result of the implementation of the salary reform in the administration;
- strengthening the control of undeclared work, the level of the declared salary and its deviation from the real salary received;

### ***Expenditure forecast by item for 2024***

*Total public expenditures for 2024* are programmed at the level of 737.4 billion ALL or 30.3% of GDP.

*Personnel expenses for 2024* reflect the current cost of Public Administration, as well as the new salary increase policy (started on April 1, 2023). The fund for the continuation of salary increases starting from July 1, 2024 is planned in the amount of 11 billion ALL and includes salary increases for employees of the health system, education and public administration employees. The total expenses for salaries in the Public Administration are planned in the amount of ALL 119.8 billion or 4.9% of GDP.

Interest expenses are predicted at the level of 66.2 billion ALL or 2.7% of GDP, including a reserve of 5.3 billion ALL to mitigate potential risks from fluctuations in interest rates, exchange rates, etc.

*Operating and maintenance expenses* for the central government for the year 2024 (not including the expenses incurred by public institutions, which have as a source of financing their own revenues), are estimated at 63.45 billion ALL or about 2.6% of the GDP. These expenses finance with priority the existing policies of the central government such as: farmers' scheme, maintenance of national roads, maintenance of IT systems, schemes to support economic development and support for education and sports.

*Local budget expenditures for 2024* are estimated at 71.25 billion ALL, with an increase of 10.4% more than the 2023 budget. These expenditures for 2024 account for 2.9% of GDP from 2.3% in 2023. The unconditional transfer for 2024, compared to 2023 is 2.5 billion ALL more or about 12% higher and compared to 2015 (the year before the administrative-territorial reform), it is 12.1 billion ALL more or about 92% higher. In the unconditional transfer foreseen for the year 2024, 24.3 billion ALL, funds of 10.7 billion ALL sectorial unconditional transfer for new functions will be added, as well as 1.5 billion ALL sectorial transfer for salary

increase. In total, in 2024, the grant from the state budget for local government will be in the amount of 36.6 billion ALL.

*The expenses of the special funds*, which includes the total expenses for the Social Insurance Funds, Health and the compensation in value of the former owners, are planned in the amount of 249 billion ALL or 10.2% of the GDP.

The level of expenditures for the Social Insurance Scheme for 2024 is expected to be 178 billion ALL or 7.3% of GDP. From this fund, the level of 4.1 billion ALL is foreseen for the indexation of pensions and 3.6 billion ALL for the end-of-year bonus for pensioners. Meanwhile, the expenses of the Health Care Insurance Scheme for 2024 are estimated at 58 billion ALL or 2.4% of GDP.

Finally, the expenses for the *Compensation Fund for the Former Owners*, are foreseen in total in the amount of 5 billion ALL or 0.2% of the GDP.

*Other social spending* includes funds for unemployment, disability, economic assistance, compensation for former political victims and birth bonuses.

- Expenses for the payment of unemployment are foreseen at the level of 800 million ALL.
- Expenses for the payment of economic aid and disability are predicted at the level of 26.25 billion ALL or 1.1% of GDP.
- A fund of 1.2 billion ALL or 0.05% of GDP has been provided for the former persecuted.
- A fund of 2.2 billion ALL or 0.1% of GDP has been provided for the birth bonus.

*Expenditures for subsidies* are estimated at 1.85 billion ALL, increasing compared to the previous year. These expenses go to support the water supply and sewerage sector based on its performance, to encourage employment, to cover part of the expenses of the railway activity and the activity of government services.

*The Reserve Fund level for 2024* is planned at 2.5 billion ALL, and is used for unforeseen cases.

*Public Investments for 2024* are planned at 5.3% of GDP or 129.4 billion ALL (including the reconstruction fund in the amount of 7 billion ALL). In the investment planning for the year 2024, all contractual obligations for investment projects with foreign and domestic financing have been taken into consideration, and priority will be given to the financing of ongoing projects.

#### **4.4. Medium-term budgetary outlook**

The revenue programming methodology is based on well-known projection models, and on the detailed analysis of the factors affecting each tax or contribution. The model used is based on macroeconomic forecasts for the period 2024 - 2026 and the following in relation to the projected nominal economic growth, the projected price index, the possible movements of the exchange rate of currencies, the expected quantity, and the analysis of product group imports, as well as time series analyses for each tax. Revenue forecasts also take into consideration the effects of the fiscal policies that will be implemented, as well as the projected effects for the increase of revenues based on the activities and operations that will be implemented in the framework of the improvement of tax and customs administration.

In the income plan, the quantities and prices of the main goods of import and production that generate up to 90% of the total income are taken into consideration, as well as the trend of their expected progress in the future. Key indicators for revenue projection:

- The economic growth of the nominal GDP, analysing this effect in order to change it with others for everything in the property, related to historical data and price projects in other markets. The growth of the economic project is calculated to impact tax revenues, to contribute and to contribute, to apply the coefficient of elasticity as well as the reflection of economic growth on income;
- The designed price index which is reflected in those tax items that are calculated according to the add valorem rates;
- The expected exchange rate of the two main values: USD EURO with Lek, in order to calculate the tax calculation base for import and export goods.

- Stock market prices of heavy goods such as fuel, energy, minerals, etc., which have an impact on budget revenues.
- Estimates based on analyses of expected quantities of import and export of goods.

Tax type	2021	2022	Forecast 2023	Forecast 2024	Forecast 2025	Forecast 2026	Difference 2024-2023	
							Value	in %
Total net VAT	161,536	191,412	200,000	211,203	224,235	236,324	11,203	5.60%
Income tax	35,610	47,683	59,000	53,679	54,868	57,881	-5,321	-9.02%
Excise duty	51,637	53,547	59,000	63,602	67,590	71,233	4,602	7.80%
Personal income tax	39,312	44,983	56,000	65,206	70,052	73,968	9,206	16.44%
Total National Taxes	42,521	44,821	41,000	44,292	46,582	49,046	3,292	8.03%
Customs Tax	7,457	8,447	8,800	9,021	9,478	9,970	221	2.51%
Total DPD+DPT	338,074	390,893	423,800	447,002	472,804	498,423	23,202	5.47%
Social and health insurance contributions	109,441	121,906	143,400	156,720	165,095	174,118	13,320	9.29%
Total DPD+DPT + (Contributions)	447,515	512,799	567,200	603,722	637,899	672,541	36,522	6.44%

For the years 2025-2026, *General Budget Expenditures* result in a decrease in percentage of GDP, part of the policy initiated within the framework of fiscal consolidation with the main objective of reducing public debt and maintaining other macroeconomic parameters at stable levels. Specifically, these expenses result in 29.8% of GDP in 2025 and 29.9% of GDP in 2026.

*Personnel expenses* maintain the average level of 4.9% of GDP throughout 2025-2026. In 2026, a new selective policy of 3 billion ALL is foreseen for the increase of salaries for the priority sector of the government to the extent of 0.1% of GDP, as well as the indexation of public administration salaries with inflation, in the amount of 0.2% of GDP foreseen for this purpose.

*Interest expenses* are planned to increase by 0.1 percentage points of GDP in 2025 compared to 2024. While in 2026, these expenses increase by 0.3 percentage points compared to 2025. This increase in interest expenses is expected due to increase in interest rates in the foreign and the domestic market throughout 2022 and 2023. The impact in the interest expenditure is expected to last also through the following years due to replacement of maturing securities with lower interest rates, with securities issued or loans disbursed under increased interest rates environment. In this regard the Ministry of Finance and Economy has forecasted an almost gradual downward trend of increase of interest expenditure to GDP from 0.4% in 2023, to 0.3% (2024), 0.1% (2025), 0.2% (2026), and 0.1% (2026) until 0% in 2028.

*Operating and maintenance expenses* are planned to decrease in 2025 to 2.6% of GDP compared to 2.7% of GDP planned in 2024. This is due to the removal of one-off policies that are expected to be implemented in 2024 from this item.

*Expenditures for social funds* remain at stable levels with an average of 10.2% of GDP for the years 2025-2026 and no new policies are expected to be implemented for this period with a high impact on the budget.

*Expenditures for the local budget* maintain the trend in 2025-2026, culminating in 3% of GDP in 2026.

*Investment expenses for the period 2025-2026* result in a decrease of 4.8% of GDP compared to 5.3% of GDP planned in 2024, thus partially explaining the main item where the reduction of expenses has been planned in order to achieve the objective of fiscal consolidation.

In conclusion, for the years 2025-2026, as explained above, we have no new policies planned to be financed that exceed 0.1% of GDP, but we will continue with the accommodation of the effects of the existing policies undertaken so far. The salary increase policy will cost the state budget 39.1 billion ALL, an effect that will be fully materialized starting from 2025 onwards.

### Medium-term central government financing needs

In the medium term, the Central Government financing needs will be achieved by using both domestic and external borrowing. Domestic borrowing sources will continue to be the main contributor in order to keep the foreign currency exchange risk under control (decreasing in the medium term the foreign currency denominated debt/total debt and maintaining this indicator below the cap of 50% defined in the Medium-Term Debt Management Strategy). Despite the positive expectations in the activity of nonfinancial institutions, domestic borrowing will continue to rely mostly on the banking sector. Short term securities will be intended to such extend needed to refinance the existing short-term maturities, meanwhile the long-term securities will be targeted at increasingly portion in order to ensure the new financing besides the refinancing of the existing long-term maturities. In any case the borrowing plan will be driven also by the interest of the investors towards the type of instruments. Domestic borrowing structure will remain at some extent flexible in terms of government securities selection, depending on the market conditions (the level of demand, interest rates, etc.), in order to ensure an optimal trade-off between cost and risks.

In the medium term external borrowing sources will contribute on the cost optimization of the debt portfolio, since a considerable part of this borrowing is expected to be conducted through loans to be obtained from multilateral and bilateral creditors which provides to the government more favourable financial terms than the market. External borrowing by bilateral and multilateral sources will be utilized mostly to finance the government important projects and the reforms undertaken by the government. Also, private sources of financing from the international capital markets will be targeted, mostly in order to manage refinancing risks on the years of peak on the repayment side and manage the debt liabilities in foreign currency. This would enable to keep the domestic borrowing within acceptable levels in order to avoid crowding out of the private sector crediting, and also to avoid pressure in the interest rates that would be present in cases of extended funding, beyond the normal capacities, of the domestic market.

### 4.5. Structural balance

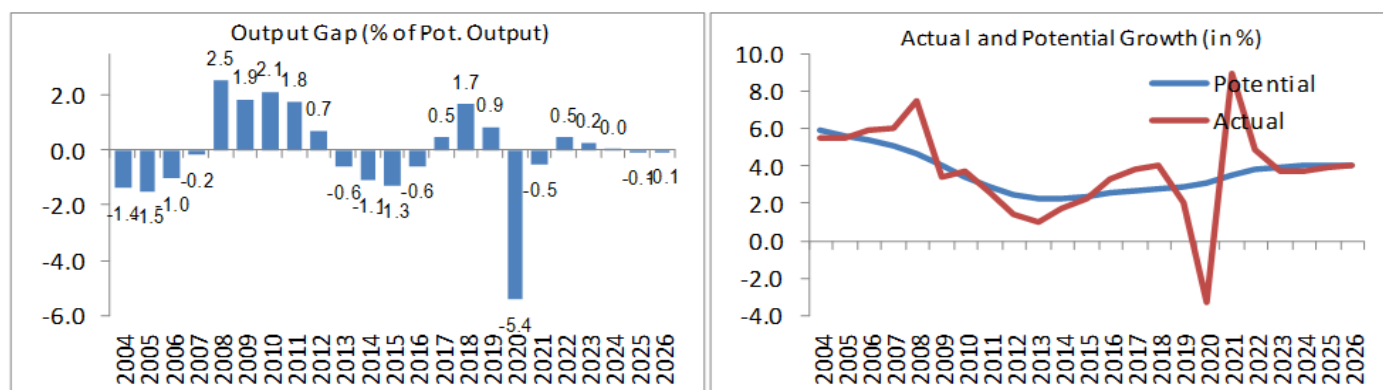
(cyclical component of the deficit, one-off and temporary measures, fiscal stance)

Estimating potential GDP and output gap

Utilizing the Hodrick-Prescott (HP) filtering technique, a time series of potential GDP was derived. The actual real output (GDP) in constant prices underwent HP filtering, employing the literature's widely endorsed values for the parameter “lambda” in the case of annual data—specifically,  $\lambda=100$ ,  $\lambda=30$ , and  $\lambda=6.5$ . The resulting potential GDP was obtained as an average of the HP-filtered series based on these three distinct “lambda” parameters. To address the end-point issue associated with this filtering technique, the most recent projections from the Ministry of Finance and Economy (MFE) were incorporated, extending up to 2031.

The output gap, formally defined as  $G_t = \frac{GDP_{t,actual} - GDP_{t,potential}}{GDP_{t,potential}}$  is depicted in the left panel of Figure 4.5.1, while the comparison between potential and actual growth is presented on the right panel.

Chart 4.5.1: Output gap (left), potential and actual growth (right)



Source: Ministry of Finance and Economy, (2023)

The econometrical results reveal that actual output remained below potential during the period 2003–2006,

nearly closing the gap in 2007 before surging to a notably positive level in 2008. The positive shift in the output gap persisted through 2009-2012, gradually diminishing due to lower actual growth compared to potential growth, influenced by the adverse effects of the global financial crisis.

Despite Albania's relative resilience in absorbing the initial impact of the global financial crisis in 2009, averting a severe recession experienced by many other nations, the country witnessed a substantial weakening of actual economic growth. This decline was notable not only compared to pre-crisis levels but also in relation to its potential growth. The year 2013 marked the lowest growth rate, coinciding with the shift of the output gap into negative territory, a trend that persisted until 2016, reaching its trough in 2015. The output gap only marginally turned positive by 2017, experienced a pronounced intensification in 2018, and remained robust in 2019 despite lower actual growth, particularly in the last quarter when the country grappled with the impact of the November earthquake. The year 2020 witnessed a significant turning point, primarily driven by the Covid-19 pandemic, which induced a sharp recession of approximately -3.3 percent. This downturn also reflected, to some extent, the notable deceleration in actual growth observed in 2019. Consequently, the output gap reached its most negative point in decades, recording about -5.4 percent of potential GDP.

A less severe contraction in 2020 than initially expected, coupled with the subsequent strong recovery in 2021 marked by an actual growth of 8.9 percent, and the sustained robust growth at 4.9 percent for 2022, especially amidst a thriving tourist season and despite challenges stemming from global supply and terms of trade shocks, have resulted in the almost complete closure of the output gap in 2021. The gap remained only marginally in negative territory and is estimated to have shifted slightly into positive territory in 2022.

In 2023, the offsetting impact of significantly tighter financial conditions and the erosive effects of inflation on real incomes, countered notably by a robust tourism season, resulted in a growth projection considerably higher than the initial one (3.5 percent versus 2.6 percent). This projection falls just slightly below the respective estimated potential growth of 3.9 percent, leading to an output that essentially converges with the potential, featuring a minimal positive output gap of 0.2 percent. Looking into the medium term (2024-26) in this baseline macroeconomic and fiscal scenario, the projected growth aligns closely with the estimated potential growth of around 4 percent, resulting in a virtually neutral output gap for the period.

#### *Estimating elasticity and budget sensitivity to output gap*

After removing one-off items from the fiscal indicators, the elasticities of revenues and expenditures were estimated using both the disaggregated approach (OECD 2005) and the aggregated approach (IMF 2010). The overall elasticities obtained from each approach were respectively 1.029 and 1.445.<sup>9</sup> To address cyclical effects, total revenues were adjusted by applying the average elasticity derived from both approaches, resulting in:

$$\varepsilon_{R,Y} = \text{average}(1.029, 1.445) = 1.237$$

In contrast to the estimated elasticity of revenues, the elasticity of expenditures did not differ significantly from zero. The regression analysis indicated a negative sign for the expenditures elasticity in both approaches, but none of them reached statistical significance at conventional levels, suggesting an elasticity coefficient equal to zero:

$$\varepsilon_{G,Y} = 0$$

Therefore, total expenditures were not adjusted for cyclical effects. Applying the formula for the sensitivity of the budget balance to the output gap (or the so-called semi-elasticity), we obtained the following value:

$$\sigma_B = r(\varepsilon_{R,Y} - 1) - g(\varepsilon_{G,Y} - 1) = 0.253(1.237 - 1) - 0.264(0 - 1) = 0.323$$

Here,  $r = 0.253$  representing the average ratio of total revenues to GDP (excluding one-offs) for the last five years (2018 – 2022), and  $g = 0.264$  is the average ratio of primary expenditures to GDP (excluding interest spending's and one-offs) for the same period. The estimated parameter of budget sensitivity ( $\sigma_B$ ) implies that for each percentage point of negative (positive) output gap, the overall primary fiscal balance will deteriorate (improve) by 0.323 percentage points of potential GDP.

#### *Estimating the cyclically adjusted fiscal balance and assessing the fiscal policy stance*

<sup>9</sup> Due to lack of data and relatively short series, in the case of disaggregated approach some of the estimated elasticity / coefficients were not significant at conventional levels and several assumptions were imposed.

Based on estimated output gaps ( $OG$ ) and the budget sensibility parameter ( $\sigma_B$ ) the cyclical component of the primary fiscal balance ( $CPB$ ) in terms of potential GDP is calculated as:

$$CPB_t = \sigma_B * OG_t$$

Whereas, the automatic stabilizers ( $AS$ ) are defined as the change in  $CPB$  in two consecutive years:

$$AS_t = CPB_t - CPB_{t-1}$$

The cyclically adjusted primary balance ( $CAPB$ ) is calculated as the difference between the actual primary fiscal balance ( $PB$ ) and its cyclical component ( $CPB$ ):

$$CAPB_t = PB_t - CPB_t$$

The overall cyclically adjusted balance ( $CAB$ ) is derived by subtracting interest expenditures ( $INT$ ) from the cyclically adjusted primary balance:

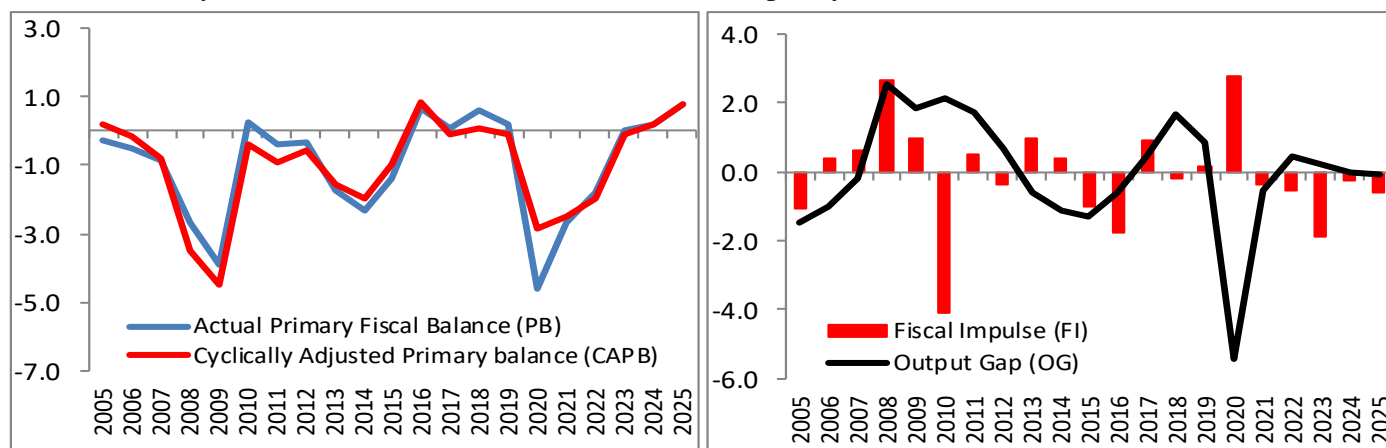
$$CAB_t = CAPB_t - INT_t$$

Fiscal impulse ( $FI$ ) in terms of potential GDP represents the change in the cyclically adjusted primary balance from one year to the next:

$$FI_t = CAPB_{t-1} - CAPB_t$$

To evaluate the fiscal policy stance, factoring in the direction of fiscal impulse (tightening or easing) and the output gap (negative or positive), we conduct a straightforward assessment of whether the policy has been pro-cyclical, counter-cyclical, or neutral during specific periods. Our analysis spans from 2001 and includes the three-year future time horizon of the current ERP, extending up until 2026. The fiscal stance is evaluated for four-year intervals, taking into account cumulative output gaps and fiscal impulses. The detailed empirical results are presented in the subsequent graph and tables.

Chart 4.5.1: Key estimated metrics used to assess the fiscal policy stance



Source: Ministry of Finance and Economy (2023)

Table 4.5.1: Fiscal policy stance

Year	Output Gap (OG)	Actual Overall Fiscal Balance (B)	Actual Primary Fiscal Balance (PB)	Cyclical Primary balance (CPB)	Cyclically Adjusted Primary balance (CAPB)	Interest Expenditures (INT)	Cyclically Adjusted Overall Balance (CAB)	Automatic Stabilizers (AS)	Fiscal Impulse (FI)	Fiscal stance relative to output gap, cumulative in 4-years intervals		
										OG	FI	Fiscal stance
1999	1.4	-9.6	-1.7	0.4	-2.2	7.9	-10.0	-	-			
2000	0.4	-8.0	-2.1	0.1	-2.2	5.9	-8.1	-0.3	0.1			
2001	1.5	-7.2	-3.0	0.5	-3.5	4.2	-7.6	0.3	1.2			
2002	-0.5	-6.2	-2.2	-0.2	-2.0	4.1	-6.1	-0.6	-1.5	-4	-4	Pro-cyclical, skewed toward fiscal consolidation
2003	-1.1	-5.0	-0.6	-0.3	-0.3	4.4	-4.7	-0.2	-1.7			
2004	-1.4	-5.2	-1.3	-0.4	-0.9	3.9	-4.7	-0.1	0.6			
2005	-1.5	-3.5	-0.3	-0.5	0.2	3.2	-3.0	0.0	-1.1			
2006	-1.0	-3.4	-0.5	-0.3	-0.2	2.9	-3.0	0.1	0.4	3	5	Pro-cyclical, skewed toward fiscal expansion
2007	-0.2	-3.5	-0.9	-0.1	-0.8	2.7	-3.5	0.3	0.7			
2008	2.5	-5.6	-2.7	0.8	-3.5	2.9	-6.4	0.9	2.7			
2009	1.9	-7.1	-3.9	0.6	-4.5	3.2	-7.7	-0.2	1.0			
2010	2.1	-3.1	0.3	0.7	-0.4	3.4	-3.8	0.1	-4.1	4	-3	Counter-cyclical
2011	1.8	-3.5	-0.4	0.6	-0.9	3.2	-4.1	-0.1	0.5			
2012	0.7	-3.4	-0.3	0.2	-0.5	3.1	-3.7	-0.4	-0.4			
2013	-0.6	-5.0	-1.7	-0.2	-1.6	3.2	-4.8	-0.4	1.0			
2014	-1.1	-5.2	-2.3	-0.4	-1.9	2.9	-4.8	-0.2	0.4	-2	-1	Pro-cyclical, skewed toward fiscal consolidation
2015	-1.3	-4.1	-1.4	-0.4	-0.9	2.7	-3.6	-0.1	-1.0			
2016	-0.6	-1.8	0.7	-0.2	0.8	2.5	-1.6	0.2	-1.8			
2017	0.5	-2.0	0.1	0.2	-0.1	2.1	-2.2	0.3	0.9			
2018	1.7	-1.6	0.6	0.5	0.1	2.2	-2.1	0.4	-0.2	-3	2	Counter-cyclical
2019	0.9	-1.9	0.2	0.3	-0.1	2.1	-2.1	-0.3	0.2			
2020	-5.4	-6.7	-4.6	-1.8	-2.9	2.1	-4.9	-2.0	2.8			
2021	-0.5	-4.6	-2.7	-0.2	-2.5	1.9	-4.4	1.6	-0.4			
2022	0.5	-3.7	-1.8	0.2	-2.0	1.9	-3.8	0.3	-0.5	1	-3	Counter-cyclical
2023	0.2	-2.2	0.0	0.1	-0.1	2.2	-2.3	-0.1	-1.9			
2024	0.0	-2.5	0.2	0.0	0.2	2.7	-2.5	-0.1	-0.3			
2025	-0.1	-2.1	0.8	0.0	0.8	2.8	-2.0	0.0	-0.6			
2026	-0.1	-2.1	0.9	0.0	1.0	3.1	-2.1	0.0	-0.1			

Source: Ministry of Finance and Economy (2023)

Table 4.5.2: Fiscal policy relative to economic cycles

Fiscal stance	Unit	Number of years	
		2000 - 2023	2024 - 2026
Cumulative output gap v.s. Cumulative fiscal impulse --> Overall fiscal stance			
Cumulative output gap	p.p. of GDP	-1	0
Cumulative fiscal impulse	p.p. of GDP	-2	-1
Overall fiscal stance		Pro-cyclical, skewed toward fiscal consolidation	Neutral

Source: Ministry of Finance and Economy (2023)

The last column of Table 4.5.1 provides a qualitative assessment of the fiscal stance during four-year intervals. This evaluation takes into account cumulative output gaps and the corresponding estimated fiscal impulses for each period. Based on these measurements and their relationship, it concludes whether the fiscal policy stance during each four-year interval was “counter-cyclical”, “neutral”, or “pro-cyclical”. In instances where the fiscal stance is identified as “pro-cyclical”, a secondary qualification is added, indicating whether this pro-cyclicality leaned more towards “fiscal consolidation” or “fiscal expansion”.

For example, during 2002-2005, both the cumulative output gap and fiscal impulses were negative (both at -4 p.p.), categorizing the fiscal policy stance as “pro-cyclical”. Furthermore, given that cumulative fiscal impulses were contracting (negative), it is further qualified as “pro-cyclical and tilted/skewed toward fiscal consolidation”. Similarly, for the period 2014-2017, the fiscal stance is characterized also as “pro-cyclical and



tilted toward fiscal consolidation," mirroring the situation in 2001-2004. In contrast, during 2006-2009, the fiscal policy is still identified as "pro-cyclical," but with a qualification of being "tilted toward fiscal expansion." This distinction arises from both the cumulative output gap and fiscal impulse having positive signs during this interval. Conversely, the intervals 2010-2013, 2018-2021, and 2022-2025 are categorized as having a "counter-cyclical" fiscal policy stance, as indicated by the opposing signs of cumulative output gaps and the respective fiscal impulses for these periods.

Applying a consistent assessment methodology, Table 4.5.2 offers an evaluation spanning the entire period from 2000 to 2023, wherein all estimations are grounded in actual or nearly actual statistics, including projections for 2023. Additionally, it covers the prospective medium-term horizon outlined in the 2024-2026 Programme, relying on the corresponding macroeconomic variables projections and fiscal policy targets. For the overall 2000-2023 period, the fiscal stance is characterized as "pro-cyclical and tilted toward fiscal consolidation," reflecting a negative estimated cumulative output gap of -1 p.p and a concurrently negative estimated cumulative fiscal impulse of -2 p.p. Conversely, for the upcoming medium-term period (2024-2026), with the estimated cumulative output gap closed at zero, the fiscal stance is deemed "neutral," irrespective of the sign (positive or negative) or the magnitude of the respective estimated cumulative fiscal impulses.

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

##### *Central Government Debt*

Central government debt management has faced significant challenges in recent years due to the situation created by the 2019 earthquake, the subsequent spread of the Covid-19 pandemic and the recent crisis caused by the Russia-Ukraine conflict. However, the debt portfolio has been managed successfully during this period in line with macro-fiscal objectives, government financing needs and medium-term strategic debt management objectives.

##### *Central Government Debt*

At the end of September 2023, the Central Government Debt amounted to ALL 1,392.9 billion which would consist of 60.3%<sup>10</sup> of expected GDP for the year 2023, decreasing by 4.2 pp compared to the end of 2022, and by 14.2 pp compared to the end of 2021. In nominal terms, the debt stock of the central government increased by ALL 14.5 billion compared to the end of 2022, out of which ALL 17.6 billion corresponds to an increase in domestic debt and ALL -3.1 billion corresponds to a decrease in external debt. In the following years, the ratio of debt-to-GDP will be planned lower than the level predicted for the previous year, until the debt level reaches and stays below 45% of GDP, being in accordance with the relevant fiscal principle defined in the legal framework.

Table 4.6.1: Stock of total central government debt 2018 - September 2023

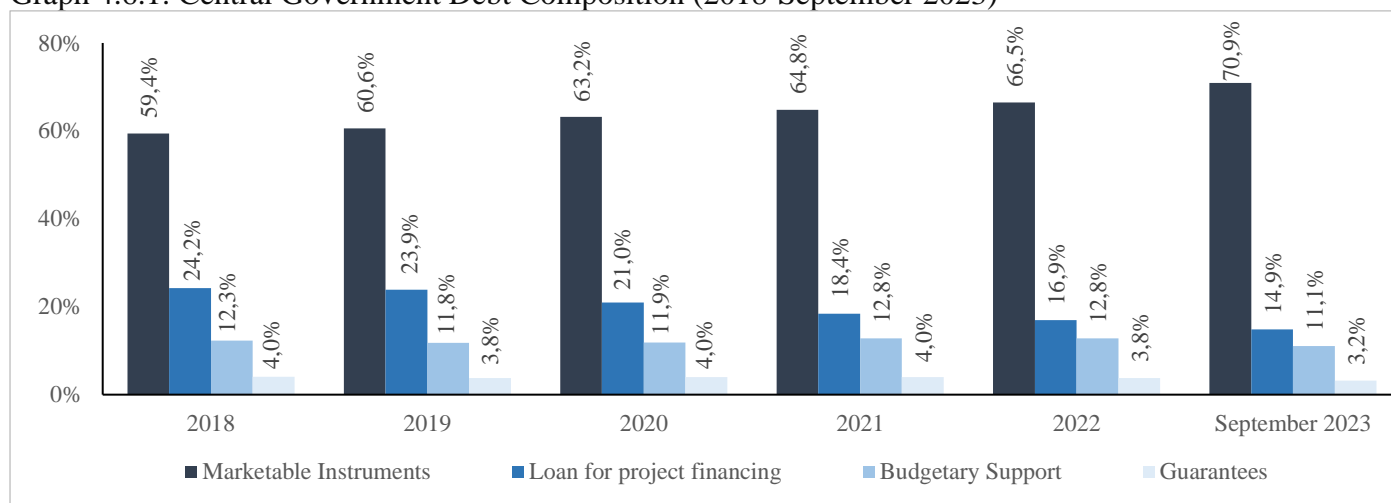
	2018	2019	2020	2021	2022	September 2023
<b>Total Debt Stock (I+II)</b>	<b>1,106,568.8</b>	<b>1,112,044.2</b>	<b>1,224,038.2</b>	<b>1,382,624.9</b>	<b>1,378,421.5</b>	<b>1,392,884.0</b>
<b>I. Domestic Debt Stock</b>	<b>580,310.3</b>	<b>597,290.0</b>	<b>644,087.8</b>	<b>702,255.5</b>	<b>732,653.9</b>	<b>750,252.3</b>
Government	565,092.5	582,135.6	630,791.1	678,880.9	712,779.4	732,994.5
Guaranteed	15,217.8	15,154.4	13,296.7	23,374.7	19,874.5	17,257.7
<b>II. External Debt Stock</b>	<b>526,258.5</b>	<b>514,754.2</b>	<b>579,950.4</b>	<b>680,369.3</b>	<b>645,767.6</b>	<b>642,631.8</b>
Government	496,804.2	488,055.8	544,434.4	648,847.9	613,421.2	615,505.4
Guaranteed	29,454.3	26,698.4	35,516.0	31,521.4	32,346.4	27,126.4
<b>GDP</b>	<b>1,636,731.3</b>	<b>1,691,903.4</b>	<b>1,647,431.1</b>	<b>1,856,172.3</b>	<b>2,138,339.2</b>	<b>2,311,672.8</b>
Total Debt Stock/GDP	67.6%	65.7%	74.3%	74.5%	64.5%	60.3%
Domestic Debt Stock/GDP	35.5%	35.3%	39.1%	37.8%	34.3%	32.5%
External Debt Stock/GDP	32.2%	30.4%	35.2%	36.7%	30.2%	27.8%

Source: Ministry of Finance and Economy, 2023

<sup>10</sup> GDP as refereed to Draft Macro Fiscal Framework as of November 2<sup>nd</sup> 2023

Regarding the composition of the central government's debt portfolio by instruments, more than 70% of the weight continues to be held by marketable instruments (Treasury Bills, Bonds and Eurobonds). The weight of marketable instruments is increased from year to year mainly due to more frequent issuances in the international markets, but also due to the increase in borrowing in the domestic market due to the increase in financing needs during the last years starting from 2020.

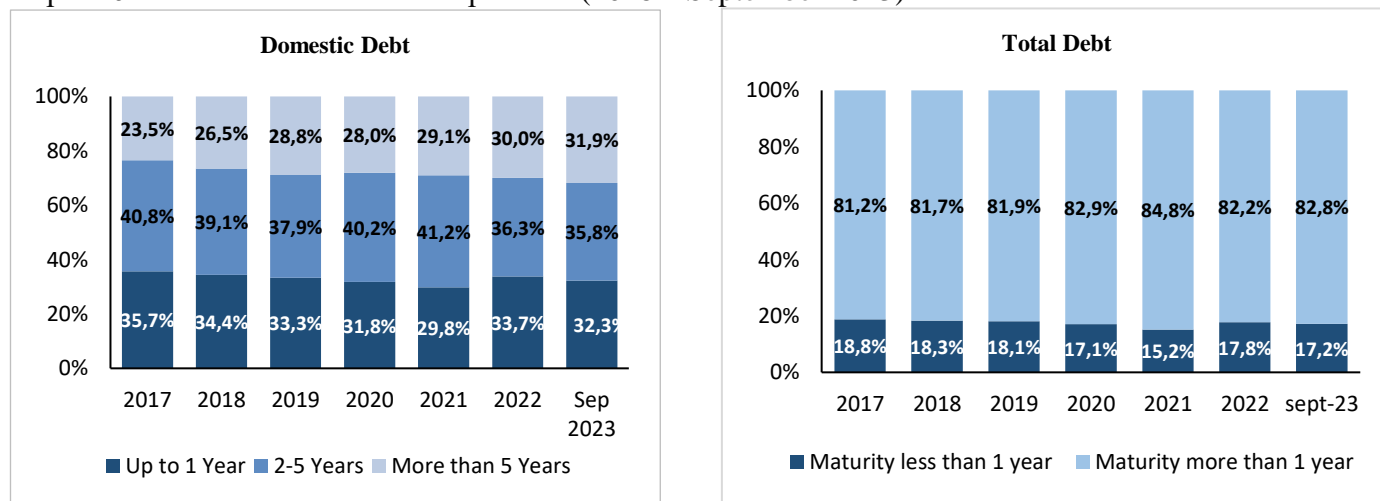
Graph 4.6.1: Central Government Debt Composition (2018-September 2023)



Source: Ministry of Finance and Economy, (2023)

In terms of maturity structure, in the domestic debt portfolio the medium-term bonds (2-5 years) hold the largest weight as of September 2023. In accordance with the strategic objective of increasing the maturity of the domestic debt portfolio, the weight of short-term bonds has been reduced by 1.5 pp, while the weight of long-term bonds (over 5 years) is increased compared to the end of 2022 by around 1.9 pp. Meanwhile, external debt consists mainly of long-term loans, as well as long-term instruments (5, 7- and 10-year Eurobonds issued in international markets).

Graph 4.6.2: Government Debt Composition (2018 – September 2023)



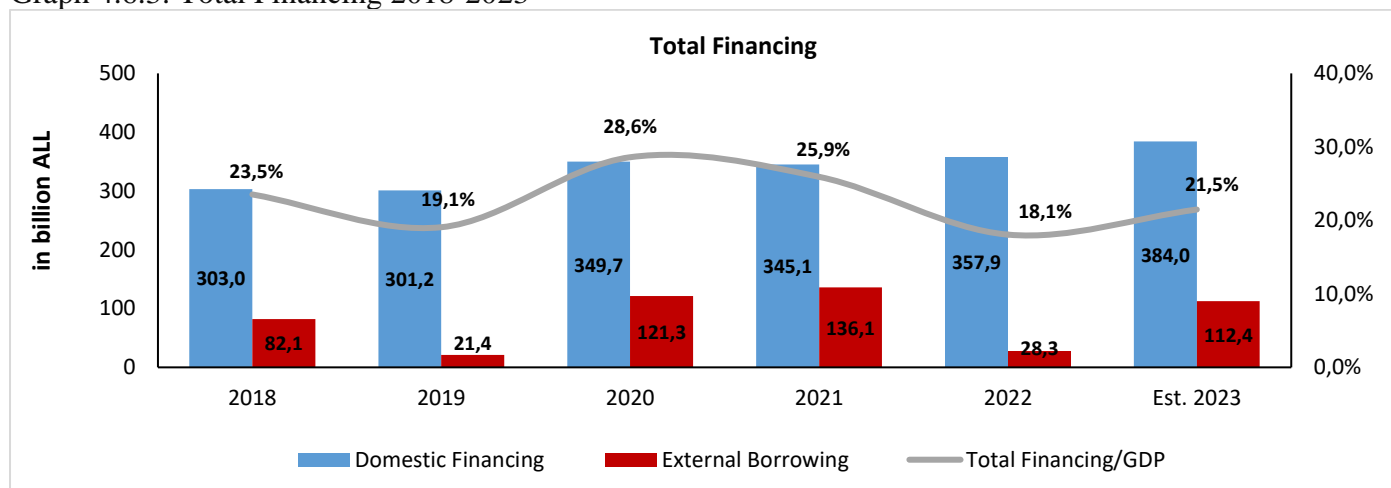
Source: Ministry of Finance and Economy (2023)

### Financing Needs

Over the last years, borrowing has been realized in accordance with budgetary needs and in accordance with strategic objectives for maintaining the stability of the relationship between cost and risk ratios.

Borrowing during the period January-September 2023 was carried out in line with the 2023 budget as well as in line with the Annual Borrowing Plan. During this period, through borrowing it was managed to refinance the existing debt and as well as financing of the deficit. Borrowing in gross terms amounted to ALL 367.2 billion, out of which 81.6% (or ALL 299.7 billion) was financed through domestic sources and 18.4% (or ALL 67.5 billion) through foreign sources.

Graph 4.6.3: Total Financing 2018-2023



Source: Ministry of Finance and Economy (2023)

During January-September 2023, Government issued securities in the domestic market at the amount of ALL 299.7 billion, out of which ALL 183.7 billion belong to short-term bonds and ALL 116.1 billion belong to long-term bonds. Borrowing during this nine-month period was realized in accordance with the Borrowing Plan for 2023. Net financing resulted at the amount of ALL 22.2 billion. Compared to the same period of 2022, net borrowing increased significantly, since in 2022 borrowing reflected the hesitance of investors to invest in government bonds, due to future uncertainty and expectations of interest rate increases, influenced by the consequences of the Russia-Ukraine conflict.

Table 4.6.2: Domestic Borrowing (January-September 2023)

Domestic Financing	January-September 2023		
	Issuances (in billion ALL)	Maturities (in billion ALL)	Net Financing (in billion ALL)
<b>Short Term Instruments</b>	<b>183.7</b>	<b>187.5</b>	<b>-3.9</b>
T. Bills	183.7	187.5	-3.9
<b>Long Term Instruments</b>	<b>116.1</b>	<b>90.0</b>	<b>26.1</b>
2Y Bonds	37.4	37.7	-0.3
3Y Bonds	20.8	16.8	4.0
5Y Bonds	29.4	27.2	2.3
7Y Bonds	14.1	8.3	5.8
10Y Bonds	10.0	0.0	10.0
15Y Bonds	4.4	0.0	4.4
<b>Total Domestic Financing</b>	<b>299.7</b>	<b>277.5</b>	<b>22.2</b>

Source: Ministry of Finance and Economy (2023)

Regarding foreign financing, at the end of September 2023, gross foreign borrowing amounted at ALL 67.5 billion. Eurobond holds the main share in foreign borrowing during this period. In June 2023, the Republic of Albania issued its sixth Eurobond, in the amount of Euro 600 million, with a five-year maturity, with a coupon of 5.9%, a yield of 6.125% and with a final offer (final book) of over 1.3 billion euros.

Table 4.6.3: External Borrowing

Gross Foreign Financing	Sep-22		Sep-23	
	<i>in billion ALL</i>	<i>in %</i>	<i>in billion ALL</i>	<i>in %</i>
Loans for Project Financing	7.3	30.4%	4.4	6.5%
Budgetary Support	16.8	69.6%	0.3	0.5%
Eurobond	0.0	0.0%	62.8	93.0%
<b>Total Disbursements</b>	<b>24.2</b>	<b>100.0%</b>	<b>67.5</b>	<b>100.0%</b>

Source: Ministry of Finance and Economy (2023)

### Cost and risks

In terms of cost and risk ratios, the Ministry of Finance and Economy, has continued the measures in the direction of reducing exposure to risks, keeping the cost at the lowest possible level according to the current market conditions. Unlike the year 2022, when due to tight market conditions the risk indicators did not evolve in the direction of the strategic objectives, during the period January-September 2023, the risk management of the debt portfolio was able to evolve in the direction of the medium-term strategic objectives showing improvement in all indicators, compared to the end of 2022.

The Medium-Term Debt Management Strategy aims to further improve the debt structure (mainly the structure of the domestic debt portfolio), in terms of reducing exposure to risks, as well as keeping costs at the lowest possible levels.

At the end of September 2023, the risk indicators of the domestic debt portfolio were able to mark an improvement compared to the first half of 2023 as well as to the end of 2022. The maturity of domestic debt has increased reaching the level of 832 days (2.31 years) at the end of September 2023 compared to 814 days at the end of June 2023 (2.26 years) and 780 days in December 2022 (2.17 years). Meanwhile, the weight of the debt that matures within one year has improved compared to the end of 2022, and has also improved compared to the first half of 2023. This indicator has decreased from 51.93% at the end of March 2023 to 50.9 % in June 2023 and at 47.6% at the end of September 2023, as it remains below the level of 47.9% that was at the end of 2022. This indicator appears in high values due to the high value (about ALL 42 billion) of 3- and 5-year reference bonds that will mature in the first quarter of 2024. In order to soften this significant maturity value, a number of buyback transactions of reference securities were planned in the issuance calendar of 2023.

In terms of interest rate risk, the average time to refix has increased from 2.17 years in December 2022 to 2.25 years in March 2023, 2.27 years in June 2023 and 2.33 in September 2023. The risk indicators of the domestic debt portfolio, after a temporary deterioration due to market conditions in 2022, are returning to the strategic objective in the short term.

Table 4.6.4: Domestic debt interest rate risk indicators

Risk		2018	2019	2020	2021	2022	Sep 2023	Medium term Objective 2026
Refinancing Risk	Debt maturing in one year	49.4%	47.7%	44.8%	46.6%	47.9%	47.6%	Max 40%
	ATM	2.17	2.19	2.18	2.20	2.17	2.31	Min 2.5 Years
Interest Rate Risk	Debt re-fixing the interest rate in one a year	54.3%	50.9%	46.7%	48.0%	49.0%	48.4%	Max 43%
	ATR	2.06	2.11	2.14	2.19	2.17	2.33	Min 2.5 Years
Exchange Rate Risk	Debt in foreign currency/Total	47.7%	45.6%	47.4%	49.8%	46.8%	46.4%	Max 50%

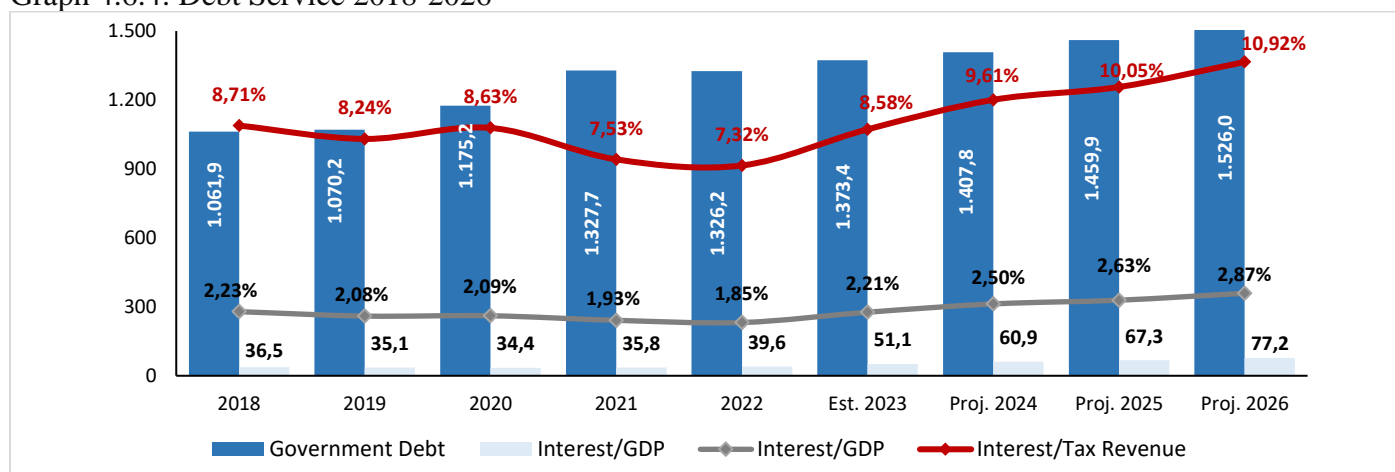
Source: Ministry of Finance and Economy (2023)

Despite the positive developments in the risk indicators, considering the new environment of the increasing interest rates in 2022, affected by the Russia-Ukraine War, the hesitation of the investors to invest in government bonds and investor base which is not very diversified, the domestic debt remains exposed to the

interest rate risk and refinancing risk. In this regard, in the medium and long term, debt management will continue to undertake activities that aim the further mitigation of these risks. Aiming further stability of the debt portfolio, the new updated Medium Term Debt Management strategy has defined some more ambitious targets compared with the preceding Strategy as regards the interest rate risk, refinancing risk and exchange rate risk, which are provided in the table above.

The average cost for domestic debt at the end of September 2023 resulted in the level of 4.62%, increasing by 57 bp compared to the end of 2022 where it was estimated at the level of 4.05%. The increase was caused mainly as the result of the increase in interest rates and therefore the replacement of maturing low interest rate securities with higher interest rate securities. Also in the foreign debt portfolio, due to the increase in international market interest rates, the average cost in 2023 is expected to be 3.4%, increasing by 100bp compared to the end of 2022 (2.4%).

Graph 4.6.4: Debt Service 2018-2026



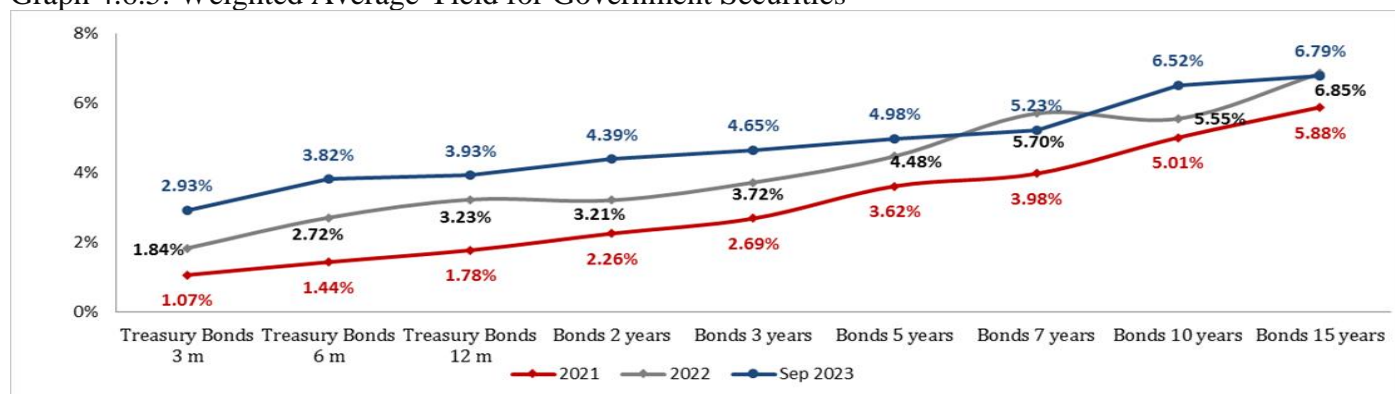
Source: Ministry of Finance and Economy (2023)

Taking into consideration the recent statements and decisions of the Federal Reserve and the ECB, these institutions may continue to pursue tight monetary policies for at least 2023 and this may continue at the beginning of 2024, as a result an increase can be expected in interest rates in the foreign market. Under these conditions, costs of foreign and domestic debt are expected to increase further compared to 2023.

### Interest Rate Development

The weighted average rates of the domestic debt securities have increased compared to the end of 2022, in almost all categories of instruments, due to increase in interest rates, mainly during 2022, and therefore the replacement of securities with lower interest rates that mature, with securities issued in tightened conditions and with increased interest rates. The Bank of Albania decided to raise the base interest rate twice during 2023, reaching the level of 3.25% from 2.75% at the end of 2022.

Graph 4.6.5: Weighted Average Yield for Government Securities

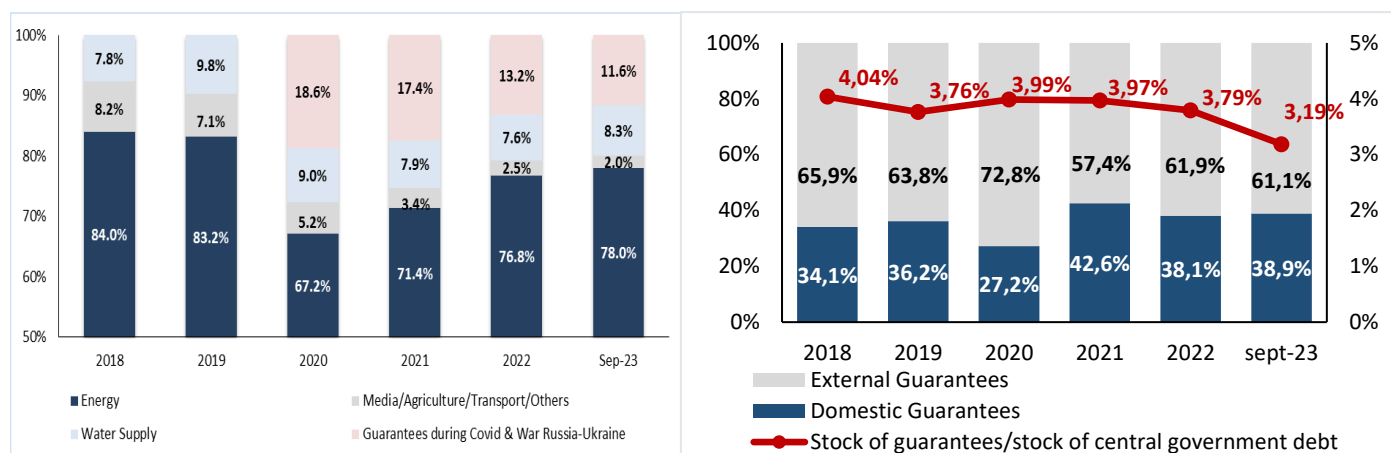


Source: Ministry of Finance and Economy (2023)

**Contingent Liabilities**

At the end of September 2023, the Guaranteed Debt portfolio stands at the level of ALL 44.4 billion or 416 million Euros (1.9% of GDP), marking a decrease of ALL 7.8 billion compared to the end of 2022. Guarantees in the domestic market account for approx. 38.9% of the total stock of guaranteed debt or ALL 17.3 billion, while guarantees given in favour of foreign creditors represent 61.1% of the stock of guaranteed debt or ALL 27.1 billion.

Graph 4.6.6: Central Government Guarantees (2018–September 2023)



Source: Ministry of Finance and Economy (2023)

From the total stock of guarantees, over 75% of the total state guarantees belong to the energy sector, reflecting the government's policies in terms of supporting the energy sector. In the medium term, the level of guaranteed debt is planned to be maintained below the level of 5% of GDP. In order to reduce the risk from the contingent liabilities arising from the state guarantees, the stock of the guaranteed debt is included 100% in the public debt stock. Such rule is defined in the organic budget law as a measure to minimise the risk of extra-budgetary activities.

In order to control/reduce the risk arising from the state guarantees, and to benefit from the advantages from the use of the guarantee instruments, the following guidance is intended to be applied for the issuance of government guarantees in the medium term:

- Government guarantees to be issued to state-owned enterprises, which have undertaken a reform initiative with an impact on strengthening their financial situation;
- Government guarantees may be issued to finance investment projects;
- Government guarantees may also be issued to support measures that can be taken in the event of a financial system crisis;
- Government guarantees may be issued for the purpose of restructuring the government guarantee portfolio replacing short term loans through long term ones.

#### 4.7. Sensitivity analysis and comparison with the previous programme

This section systematically outlines the anticipated repercussions on the fiscal framework, overall fiscal policy, and potential budgetary adjustments under each alternative scenario, aligning with the two alternative macroeconomic scenarios detailed in section 3.3.

In the event of the "pessimistic" macroeconomic scenario, which postulates significantly lower economic growth each year compared to the baseline, a prudent approach for this sensitivity exercise involves assuming diminished tax collection efficiency for key tax components. Conversely, if the "optimistic" macroeconomic scenario materializes, one might reasonably anticipate heightened tax collection effectiveness.

To factor in potential variations in revenue collection performance under each alternative scenario and to accommodate "the overall net effect" of automatic stabilizers, the pessimistic scenario involves subjecting the "ratio of total revenues to GDP" to a negative shock equivalent to one-third of the respective shock (in

percentage points) introduced in the "real growth" for each year. In contrast, the optimistic scenario entails an asymmetric positive shock of one-tenth for the respective shock of this variable in the "optimistic" scenario.

In each alternative scenario, we maintain the same assumption for effective interest rates as in the baseline (defined as interest expenditures in year "t" divided by the debt stock in year "t-1"). However, we factor in adjustments to interest expenditure levels resulting from higher or lower borrowing under each scenario. The presumed nominal exchange rate remains constant across all scenarios. It's important to note that each year's budget incorporates a contingency (legally mandated in the Organic Budget Law) of approximately 0.3 percent of GDP, designed to cover any elevated interest expenses arising from increases in interest rates or exchange rate depreciation.

In adherence to the fiscal rules outlined in the Organic Budget Law (OBL), the overall consolidating fiscal policy is maintained in each macroeconomic scenario. However, the quantitative target for the annual fiscal deficit varies in each scenario, primarily reflecting a countercyclical response to different assumed dynamics of the economic cycle, within the confines of fiscal rule compliance. Generally, there is an expectation of fiscal deficit relaxation in the "pessimistic" scenario and a more robust fiscal consolidation in the "optimistic" scenario. In the "pessimistic" scenario, fiscal policy easing, compared to the "baseline", would be implemented to the extent that key public finance parameters (e.g., debt-to-GDP ratio, primary balance, and current fiscal balance) simultaneously adhere to the fiscal rules in the Organic Budget Law. The necessary spending adjustments to ensure compliance with fiscal rules under the "pessimistic" scenario are made in both "domestically financed capital spending" and "operational and maintenance expenditures". Specifically, the annual average reduction in capital spending during 2024-2026, under the "pessimistic" scenario compared to the "baseline", amounts to ALL 21.2 billion or approximately 0.7 percent of GDP on average each year. In the "pessimistic" scenario, the average annual level of total capital expenditures during 2024-2026 decreases to 4.3 percent of GDP from the planned 5.0 percent of GDP in the "baseline." Operational and maintenance spending during 2024-26 is reduced by an average of ALL 8.3 billion per year compared to the baseline, or an average of 0.2 percent of GDP per year.

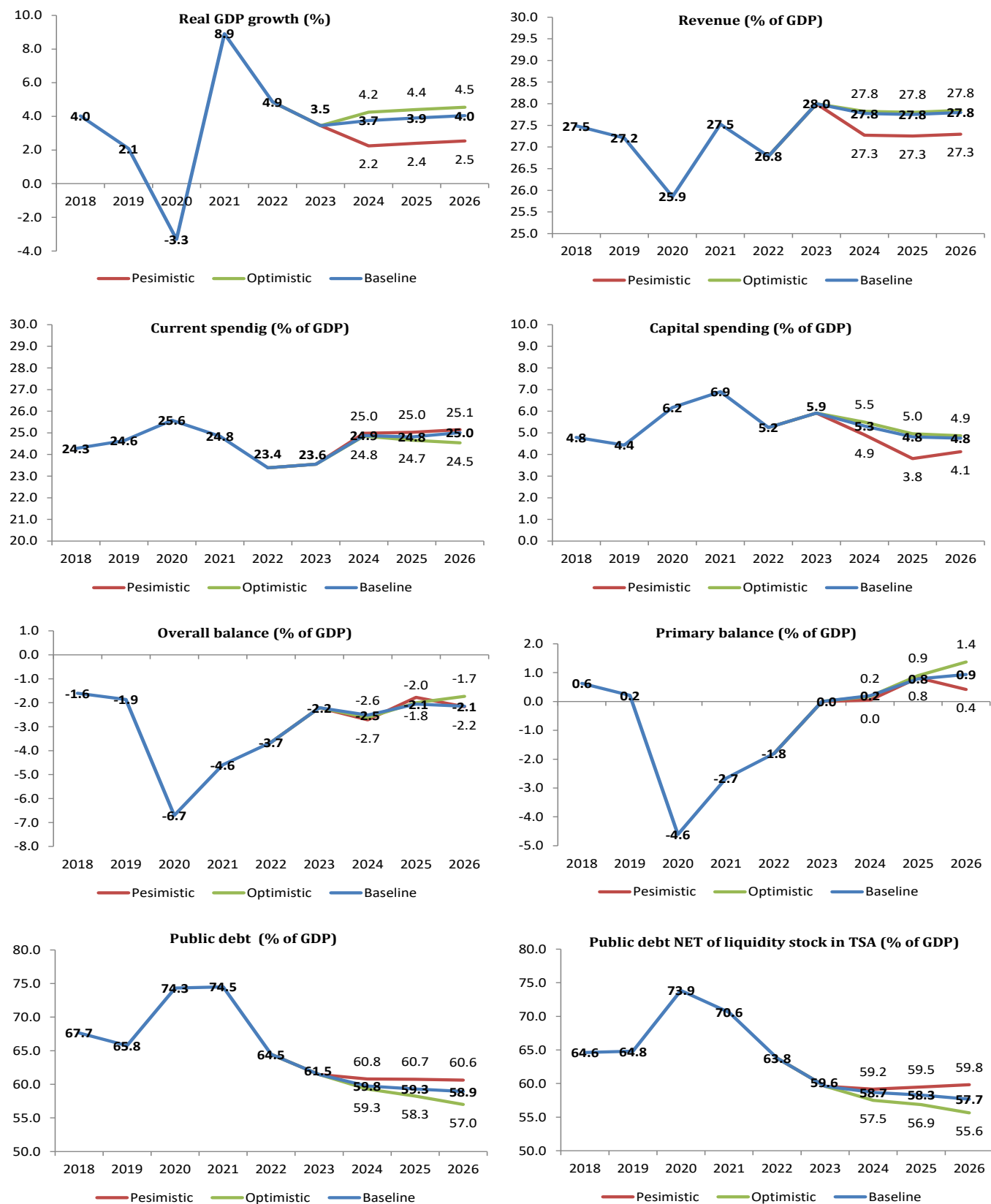
In the "optimistic" scenario, all discretionary expenditure items in nominal terms are assumed to be identical to the "baseline", and any additional revenues generated are reflected as a higher overall fiscal balance (resulting in a lower deficit) each year compared to the "baseline".

To effectively address all budget and debt service requirements (i.e., financing needs) over the three-year time horizon (including 2026), three financing items, namely "net domestic borrowing", "change of liquidity stock in TSA", and "liquidity stock in TSA", are simultaneously optimized in each alternative scenario, with a particular emphasis on the "pessimistic" one. Meanwhile, "net foreign borrowing", encompassing both commercial and concessional borrowing, remains assumed to be exactly the same as in the "baseline".

In the "optimistic" scenario all discretionary expenditures items in nominal terms are assumed identical as in the "baseline" and all revenues windfall is reflected as a higher overall fiscal balance (i.e. lower deficit) in each year as compared to the "baseline". The following charts and tables present the main fiscal implications of alternative scenarios.



Chart 4.7.1: Dynamics of main indicators under different scenarios



Source: Ministry of Finance and Economy (2023)



Table 4.7.1A: Main revenues and expenditures in each scenario (in billion ALL)

	2018	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.
<b>Total Revenue</b>									
<b>Baseline</b>	449.9	460.3	425.9	511.0	572.8	647.2	676.1	709.8	747.9
<b>Pesimistic</b>							652.4	673.0	696.8
<b>Optimistic</b>							680.6	718.0	760.1
<b>Total expenditures</b>									
<b>Baseline from which:</b>	476.1	491.9	536.3	596.3	651.0	698.3	737.4	762.4	805.6
Current expenditures <i>from which:</i>	397.3	416.9	421.4	461.1	500.0	544.4	605.5	634.7	672.9
Operational & Maintenance	45.5	47.2	48.9	59.4	68.5	75.9	67.1	65.9	67.7
Interest	36.5	35.1	34.4	35.8	39.6	51.1	66.2	72.7	83.0
Capital expenditures <i>from which:</i>	78.4	75.0	101.7	128.0	112.1	136.6	129.4	123.0	127.8
Domestic financing	52.2	51.5	60.6	72.8	64.6	87.1	78.4	72.5	73.4
Foreign financing	26.2	23.5	24.5	25.7	18.7	32.6	44.0	48.5	52.4
Reconstruction fund			16.6	29.5	28.9	17.0	7.0	2.0	0.0
<b>Pesimistic from which:</b>							717.4	716.8	752.0
Current expenditures <i>from which:</i>							597.5	618.0	641.9
Operational & Maintenance							59.1	57.9	58.7
Interest							66.2	64.0	65.9
Capital expenditures <i>from which:</i>							117.4	94.0	105.3
Domestic financing							66.4	43.5	50.9
Foreign financing							44.0	48.5	52.4
Reconstruction fund							7.0	2.0	0.0
<b>Optimistic from which:</b>							744.7	769.6	807.4
Current expenditures <i>from which:</i>							607.8	636.8	669.7
Operational & Maintenance							67.1	65.9	67.7
Interest							68.5	74.8	84.7
Capital expenditures <i>from which:</i>							134.4	128.0	132.8
Domestic financing							83.4	77.5	78.4
Foreign financing							44.0	48.5	52.4
Reconstruction fund							7.0	2.0	0.0

Source: Ministry of Finance and Economy (2023)

Table 4.7.2A: Main fiscal parameters and financing items in each scenario (in billion ALL)

	2018	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.
<b>Overall balance</b>									
<i>Baseline</i>	-26.2	-31.5	-110.4	-85.3	-78.2	-51.1	-61.3	-52.6	-57.7
<i>Pesimistic</i>							-65.0	-43.7	-55.2
<i>Optimistic</i>							-64.1	-51.6	-47.3
<b>Financing of overall balance</b>									
<i>Baseline from which:</i>	26.2	31.5	110.4	85.3	78.2	51.1	61.3	52.6	57.7
Net domestic borrowing	19.6	17.8	48.4	48.7	26.2	25.0	50.0	50.0	40.0
Change of liquidity stock in TSA	-30.5	16.6	14.7	-72.7	41.5	-28.4	16.8	0.5	-8.3
Net foreign borrowing <i>from which:</i>	33.1	-9.4	60.9	104.0	-9.5	48.5	-15.5	2.1	26.1
Earmarked project financing	21.2	20.5	17.2	14.6	11.1	20.6	29.0	33.0	37.1
Eurobond	62.5	0.0	80.3	78.5	0.0	65.7	0.0	65.7	54.8
Budgetary support from IFIs	0.9	1.6	23.8	42.5	17.1	25.5	6.6	11.8	6.6
Repayments	-51.7	-29.8	-61.7	-33.2	-38.4	-63.9	-52.1	-109.5	-73.4
Other flows	4.1	6.5	-13.7	5.3	20.1	6.0	10.0	0.0	0.0
<i>Pesimistic from which:</i>							65.0	43.7	55.2
Net domestic borrowing							49.9	33.6	18.5
Change of liquidity stock in TSA							20.6	8.0	10.7
Net foreign borrowing <i>from which:</i>							-15.5	2.1	26.1
Earmarked project financing							29.0	33.0	37.1
Eurobond							0.0	65.7	54.8
Budgetary support from IFIs							6.6	11.8	6.6
Repayments							-52.1	-109.5	-73.4
Other flows							10.0	0.0	0.0
<i>Optimistic from which:</i>							64.1	51.6	47.3
Net domestic borrowing							45.8	42.0	22.5
Change of liquidity stock in TSA							23.8	7.5	-1.3
Net foreign borrowing <i>from which:</i>							-15.5	2.1	26.1
Earmarked project financing							29.0	33.0	37.1
Eurobond							0.0	65.7	54.8
Budgetary support from IFIs							6.6	11.8	6.6
Repayments							-52.1	-109.5	-73.4
Other flows							10.0	0.0	0.0
<b>Primary balance</b>									
<i>Baseline</i>	10.3	3.6	-76.0	-49.5	-38.6	0.1	4.9	20.1	25.2
<i>Pesimistic</i>							1.2	20.3	10.7
<i>Optimistic</i>							4.4	23.2	37.4
<b>Current balance</b>									
<i>Baseline</i>	52.2	43.4	-8.7	42.7	33.9	85.6	68.1	70.4	70.1
<i>Pesimistic</i>							52.4	50.2	50.1
<i>Optimistic</i>							70.3	76.4	85.5
<b>Public debt</b>									
<i>Baseline</i>	1,107.3	1,112.6	1,224.5	1,383.0	1,378.6	1,420.6	1,454.5	1,516.6	1,585.7
<i>Pesimistic</i>							1,454.4	1,500.2	1,547.7
<i>Optimistic</i>							1,450.3	1,504.4	1,556.0
<b>Liquidity stock in Treasury Single Account (TSA)</b>									
<i>Baseline</i>	49.4	16.2	7.8	72.6	14.5	42.9	26.1	25.6	33.9
<i>Pesimistic</i>							39.0	31.0	20.3
<i>Optimistic</i>							43.7	36.2	37.5
<b>Public debt NET of liquidity stock in TSA</b>									
<i>Baseline</i>	1,057.8	1,096.5	1,216.7	1,310.3	1,364.1	1,377.7	1,428.4	1,491.0	1,551.8
<i>Pesimistic</i>							1,415.5	1,469.2	1,527.4
<i>Optimistic</i>							1,406.7	1,468.3	1,518.6

Source: Ministry of Finance and Economy (2023)

Table 4.7.1B: Main revenues and expenditures in each scenario (% of GDP)

	2018	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.
<b>Total Revenue</b>									
<b>Baseline</b>	27.5	27.2	25.9	27.5	26.8	28.0	27.8	27.8	27.8
<b>Pesimistic</b>						28.0	27.3	27.3	27.3
<b>Optimistic</b>						28.0	27.8	27.8	27.8
<b>Total expenditures</b>									
<b>Baseline from which:</b>	29.1	29.1	32.6	32.1	30.4	30.2	30.3	29.8	29.9
Current expenditures <i>from which:</i>	24.3	24.6	25.6	24.8	23.4	23.6	24.9	24.8	25.0
Operational & Maintenance	2.8	2.8	3.0	3.2	3.2	3.3	2.8	2.6	2.5
Interest	2.2	2.1	2.1	1.9	1.9	2.2	2.7	2.8	3.1
Capital expenditures <i>from which:</i>	4.8	4.4	6.2	6.9	5.2	5.9	5.3	4.8	4.8
Domestic financing	3.2	3.0	3.7	3.9	3.0	3.8	3.2	2.8	2.7
Foreign financing	1.6	1.4	1.5	1.4	0.9	1.4	1.8	1.9	1.9
Reconstruction fund			1.0	1.6	1.4	0.7	0.3	0.1	0.0
<b>Pesimistic from which:</b>						30.2	30.0	29.0	29.5
Current expenditures <i>from which:</i>						23.6	25.0	25.0	25.1
Operational & Maintenance						3.3	2.5	2.3	2.3
Interest						2.2	2.8	2.6	2.6
Capital expenditures <i>from which:</i>						5.9	4.9	3.8	4.1
Domestic financing						3.8	2.8	1.8	2.0
Foreign financing						1.4	1.8	2.0	2.1
Reconstruction fund						0.7	0.3	0.1	0.0
<b>Optimistic from which:</b>						30.2	30.4	29.8	29.6
Current expenditures <i>from which:</i>						23.6	24.8	24.7	24.5
Operational & Maintenance						3.3	2.7	2.6	2.5
Interest						2.2	2.8	2.9	3.1
Capital expenditures <i>from which:</i>						5.9	5.5	5.0	4.9
Domestic financing						3.8	3.4	3.0	2.9
Foreign financing						1.4	1.8	1.9	1.9
Reconstruction fund						0.7	0.3	0.1	0.0

Source: Ministry of Finance and Economy (2023)

Table 4.7.2 B: Main fiscal parameters and financing items in each scenario (% of GDP)

	2018	2019	2020	2021	2022	2023 Est.	2024 Proj.	2025 Proj.	2026 Proj.
<b>Overall balance</b>									
<i>Baseline</i>	-1.6	-1.9	-6.7	-4.6	-3.7	-2.2	-2.5	-2.1	-2.1
<i>Pesimistic</i>						-2.2	-2.7	-1.8	-2.2
<i>Optimistic</i>						-2.2	-2.6	-2.0	-1.7
<b>Financing of overall balance</b>									
<i>Baseline from which:</i>	1.6	1.9	6.7	4.6	3.7	2.2	2.5	2.1	2.1
Net domestic borrowing	1.2	1.1	2.9	2.6	1.2	1.1	2.1	2.0	1.5
Change of liquidity stock in TSA	-1.9	1.0	0.9	-3.9	1.9	-1.2	0.7	0.0	-0.3
Net foreign borrowing <i>from which:</i>	2.0	-0.6	3.7	5.6	-0.4	2.1	-0.6	0.1	1.0
Earmarked project financing	1.3	1.2	1.0	0.8	0.5	0.9	1.2	1.3	1.4
Eurobond	3.8	0.0	4.9	4.2	0.0	2.8	0.0	2.6	2.0
Budgetary support from IFIs	0.1	0.1	1.4	2.3	0.8	1.1	0.3	0.5	0.2
Repayments	-3.2	-1.8	-3.7	-1.8	-1.8	-2.8	-2.1	-4.3	-2.7
Other flows	0.2	0.4	-0.8	0.3	0.9	0.3	0.4	0.0	0.0
<i>Pesimistic from which:</i>						2.2	2.7	1.8	2.2
Net domestic borrowing						1.1	2.1	1.4	0.7
Change of liquidity stock in TSA						-1.2	0.9	0.3	0.4
Net foreign borrowing <i>from which:</i>						2.1	-0.6	0.1	1.0
Earmarked project financing						0.9	1.2	1.3	1.5
Eurobond						2.8	0.0	2.7	2.1
Budgetary support from IFIs						1.1	0.3	0.5	0.3
Repayments						-2.8	-2.2	-4.4	-2.9
Other flows						0.3	0.4	0.0	0.0
<i>Optimistic from which:</i>						2.2	2.6	2.0	1.7
Net domestic borrowing						1.1	1.9	1.6	0.8
Change of liquidity stock in TSA						-1.2	1.0	0.3	0.0
Net foreign borrowing <i>from which:</i>						2.1	-0.6	0.1	1.0
Earmarked project financing						0.9	1.2	1.3	1.4
Eurobond						2.8	0.0	2.5	2.0
Budgetary support from IFIs						1.1	0.3	0.5	0.2
Repayments						-2.8	-2.1	-4.2	-2.7
Other flows						0.3	0.4	0.0	0.0
<b>Primary balance</b>									
<i>Baseline</i>	0.6	0.2	-4.6	-2.7	-1.8	0.0	0.2	0.8	0.9
<i>Pesimistic</i>						0.0	0.0	0.8	0.4
<i>Optimistic</i>						0.0	0.2	0.9	1.4
<b>Current balance</b>									
<i>Baseline</i>	3.2	2.6	-0.5	2.3	1.6	3.7	2.8	2.8	2.6
<i>Pesimistic</i>						3.7	2.2	2.0	2.0
<i>Optimistic</i>						3.7	2.9	3.0	3.1
<b>Public debt</b>									
<i>Baseline</i>	67.7	65.8	74.3	74.5	64.5	61.5	59.8	59.3	58.9
<i>Pesimistic</i>						61.5	60.8	60.7	60.6
<i>Optimistic</i>						61.5	59.3	58.3	57.0
<b>Liquidity stock in Treasury Single Account (TSA)</b>									
<i>Baseline</i>	3.0	1.0	0.5	3.9	0.7	1.9	1.1	1.0	1.3
<i>Pesimistic</i>						1.9	1.6	1.3	0.8
<i>Optimistic</i>						1.9	1.8	1.4	1.4
<b>Public debt NET of liquidity stock in TSA</b>									
<i>Baseline</i>	64.6	64.8	73.9	70.6	63.8	59.6	58.7	58.3	57.7
<i>Pesimistic</i>						59.6	59.2	59.5	59.8
<i>Optimistic</i>						59.6	57.5	56.9	55.6

Source: Ministry of Finance and Economy, December 2023

#### 4.8. Quality of public finances

The quality of public finances in Albania has been under reforming process starting from 2014, with the adoption of the Public Finance Management (PFM) Strategy 2014-2020, and followed by 2019-2022 PFM Strategy. Public finances improvements over years proof the reform progress during these years. The revised PFM Strategy 2019-2022 addressed a number of challenges that our country should tackle in its path towards European Union. PFM Strategy aims at supporting a more developed economy with better services to citizens; it aims at increasing the accountability, efficiency and fiscal discipline in planning and spending public funds. With the support of this Strategy, GoA expects to improve gender-based budgeting and thus undertake a tangible step in increasing equal opportunities between men and women for our country's development and for social transformation. The Strategy enables local government to provide better and more transparent services to citizens and gives them the opportunity to have a say in planning and spending public money, the accountability, efficiency and fiscal discipline in planning and spending public funds.

The Public Finance Management (PFM) Strategy 2019-2022 expired in December 2022. The annual progress report of PFM report provides an assessment of the PFM eligibility criteria for the European Union (EU) to provide Budget Support to Albania. The PFM eligibility criterion requires the existence of a credible and relevant programme to improve public financial management as well as satisfactory progress in the implementation of the programme. Therefore, due to these significant roles, MOFE is following the phases of the calendar for drafting and approving the new PFM strategy. This document will set forth the directions and priorities to guarantee a public finance system that promotes transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development. The continuation of the PFM reforms is essential in order to increase the effectiveness of budget spending and create a more productive environment for expenditure in the medium and long term. The strategy will cover the period 2023-2030, in coordination and timely approximation with the National Strategy on Development and Europe Integration (NSDEI), with the latter being aligned with the 2030 Sustainable Development Agenda. The PFM strategy will have its own Action Plan, covering a 3-year period including short-term activities and timely products. Three phases are being followed to prepare the new PFM strategy such as: Phase I - Drafting, consultation, and approval of the 'menu of challenges' document; Phase II – Drafting and costing of the New Public Finance Management Strategy; Phase III – Launch and approval of the New Public Finance Management Strategy.

*Regarding the first phase*, the international evaluation reports, as well as internal reports were scrutinized and the weaknesses and challenges in the field of public finances were identified. Meetings were held with all the respective units involved in PFM, in which findings and the priorities were discussed, which were presented in the document 'Menu of Challenges'. The "Menu of Challenges" document was consulted with all interested parties, including Development and Integration Partners and Civil Society Organizations, and was approved in the PFM Steering Committee held in July 2023.

*In relation to the second phase*, the methodology for preparing the new PFM Strategy was drafted based on IPSIS methodology, the SIGMA/OECD methodology and best practices (national and international). The methodology was discussed and approved in the Steering Committee held in July 2023. In addition, the draft Prime Minister's order 'On the establishment of the inter-institutional working group for the drafting of the Sectorial Strategy for the Public Finance Management 2023-2030 and the action plan' was shared and consulted with all the involved actors and approved with the Prime Minister's order No.195, dated 8.11.2023. Regarding the drafting process of the PFM document, MOFE with the support of TA is conducting dedicated meetings with units responsible for each component of the PFM with the aim of defining the vision for 2030 and the measures that will be included in the PFM Action Plan 2023-2026. A first draft version of the PFM strategy document is expected to be finalized within December 2023.

*While, during the third phase*, the draft strategy will be submitted for consultation and the full package will be sent to the Council of Ministers for approval. The approved strategy will be shared with all stakeholders and published on MOFE's website.

#### **4.9. Fiscal governance and budgetary frameworks**

The PFM Strategy describes envisaged changes to the country's fiscal governance, i.e. to the set of arrangements, rules, and institutions that underlie the conduct of fiscal policy and *who* should do *what* in order to bring novelties in public finance management processes. The Strategy provides Specific, Measurable, Achievable, Realistic, Timely (SMART) outcomes for each of the Specific Objectives which are detailed along with Interventions (Components). Each Specific Objective of the PFM Strategy 2019-2022 included a description of progress since 2014 along with lessons learned and priorities till 2022. Key interventions were directly linked to outcomes and lead stakeholders were identified to ensure clear lines of accountability. Outputs were also clearly identified for each Component within the Specific Objectives. 2019-2022 strategy was reorganized in seven Specific Objectives:

*Specific Objective 1: Sustainable and prudent fiscal framework*

*Specific Objective 2: Well-integrated and efficient planning*

*Specific Objective 3: Revenue mobilization*

*Specific Objective 4: Efficient execution of the Budget*

*Specific Objective 5: Transparency of Public Finances*

*Specific Objective 6: Effective internal control*

*Specific Objective 7: Effective external oversight of the Public Finances*

Currently, MOFE is drafting the new PFM strategy document which will set forth the directions and priorities to guarantee a public finance system that promotes transparency, accountability, fiscal discipline and efficiency in the management and use of public resources for improved service delivery and economic development.

#### **4.10. Sustainability of public finances**

The implementation of PFM reform serves as roadmap for Albania, to maintain the sustainability of public finances. *The overall objective* of the PFM reform Strategy is to achieve a better-balanced and sustainable budget with a reduced debt ratio through stronger financial management and control and audit processes and where budget execution is properly linked to Government policies. This strategic document in the domain of public finance management serves as a roadmap in:

- Reducing public debt;
- Settling and preventing arrears;
- Continuous mobilization of tax and customs revenue collection;
- Improving public investment projects, including Public Private Partnership and concessions;
- Ensuring a better linkage between strategic policies and Mid-term Budget Program;
- A more structured and timely engagements with citizens, Civil Society Organizations and
- Academia in budget planning, monitoring and reporting;
- Increasing efforts to improve the degree of implementation of SAI's recommendations and findings.

MOFE has provided a specific focus to the PFM reform: starting with the formulation of the PFM Strategy, the implementation of the reform over years, the monitoring and reporting and evaluation. MOFE has established an annual government-led PFM policy dialogue with all relevant stakeholders, including the EU, main IFIs and partner countries, as well as civil society organizations.

## 5. STRUCTURAL REFORM PRIORITIES IN 2024-2026

### I. Human Capital and Social Policies

#### *Analysis of main obstacles*

##### **Employment and labour market**

Albania has continued the significant progress towards ensuring that both men and women have access to increased employment opportunities. After the pandemic, which negatively affected the labour market, a positive trend is observed during 2022 - 2023 in all labour market indicators. The participation rate in the labour market for the population aged 15-64 in the second quarter of 2023, is 75.8%. Compared to the second quarter of 2022, the labour force participation rate is 3.0% higher, while compared to the previous quarter it has increased by 0.1%. The employment rate for the population aged 15-64 in the labour market in 2022 is 65% with an increase of 4.4% compared to 2020. While during the second quarter of 2023, the employment rate for the population aged 15-64 is 67.4% with an increase of 2.7 p.p. compared to the second quarter of 2022. The employment rate has improved significantly especially among women from 53.8 in 2021 to 58.9% in 2022 and gender gap in employment has been decreasing from 14.4% in 2021 to 14.2% in 2022. Nonetheless, gender inequality in employment remains problematic, with men's employment rate exceeding women's by 12.4%.

The unemployment rate for the population aged 15 and over in the labour market in 2022 is 10.9, which is 0.8 percentage points lower than in 2020. In the second quarter of 2023, the official unemployment rate in Albania is 10.7% with a decrease of 0.4 p.p. compared to the second quarter of 2022, and by 0.1 percentage points compared to the first quarter of 2023.

The level of employment and the participation rate of young people has been steadily increasing over the last few years. The employment rate for the young people 15-24 for 2022 was 29.0 with an increase of 2.6 p.p. compared to the previous year and participation rate of 38.6 with an increase of 2.3 p.p. compared to 2021. Nonetheless both figures remain low compared to the employment and participation rate of the total population. The unemployment rate is continuously decreasing but still lags the rest of the adult population. In terms of the percentage of young people neither in employment nor in education or training (NEET) in 2022 it was 25.2 with a decrease of 0.9 p.p. compared to 2021. The NEET rate was 5.2 p.p. higher for women (27.8%) than for men (22.6%) in 2022. A high share of young people neither in employment nor in education and training NEET is in Albania and it is almost the double the EU-27 average.

##### **Education and skills**

##### **VET**

In the VET system, a coherent policy cycle of internal processes for the development and maintenance of professional qualifications has already been developed, which supports the relevance of qualifications in the labour market. In this context, the profession standards, qualification standards and skeleton curricula are already being developed in accordance with a contemporary methodology which takes into consideration the principles and criteria of the Albanian Framework of Qualifications and the aforementioned documents are based on the active contribution of the private sector. Reviewing and updating the National Qualifications Catalogue is a dynamic process that is closely related to addressing the needs of the labour market and the needs of society as a whole.

Digitization has become an important element of the labour market and VET providers are adapting to use its advantages to offer new ways of modern learning/teaching. In cooperation with donors, (EU, GIZ-Germany, SDC-Switzerland, ADA-Austria, Italian Cooperation, etc.) we are working both in terms of equipping with the necessary infrastructure and logistics, but also in increasing the capacity of human resources in the use of the advantages of digitization in the development of the learning process. The needs in this area are considerable and the situation of COVID-2019 pointed out that priority should be invested in this direction, both in terms of equipping with infrastructure and logistics, as well as in ongoing training.

Through the state budget, significant investments have been made in the infrastructure of VET providers, both in terms of new, modern buildings and professional practice laboratories. Now, almost all schools have suitable equipment for the development of practical and theoretical learning. Meanwhile, the work is continuing to optimize the network of providers of education and professional training to be positioned in the market as a quality educational offer in response to the needs of the labour market and society as a whole.

Demographic problems and emigration have led to a decrease in the number of students attending education in general and vocational education. Scholarship have been awarded for several years in order to increase the participation of students who are from rural areas, from vulnerable groups and girls in vocational schools for those girls who want to study subjects traditionally not typical for them.

Important steps have been taken in recent years in the consolidation of the regulatory and institutional framework, in the further development and implementation of the Albanian Qualifications Framework, which was referenced with the European Qualifications Framework (EQF).

The result of efforts to increase the quality and importance of VET in the labour market and for young people and adults, was the development and implementation of the quality assurance framework, which is based on the interaction and comparison of self-assessment results with external evaluation processes such as: accreditation, monitoring and inspection. Approving and starting the implementation of the accreditation process is a very important step for creating a quality culture in the system. However, the quality assurance and development framework in VET needs to be complemented by two important functions, such as inspection and monitoring. Monitoring of public VET providers should be developed in accordance with quality areas, standards and criteria of self-assessment, accreditation and inspection.

A very important dimension of quality assurance in VET is the initial qualification and continued professional development of teachers. In this respect, the program for the initial qualification of teachers has been institutionalized, while continuing professional development remains a complex challenge, the treatment of which will be decisive for the success of the provision of VET, which responds to the dynamic labour market and prepares youth and adults for the double transition.

The recognition of previous non-formal and informal learning, as well as the inclusion of lifelong qualifications in the KSHC still remain unregulated in practice, although the Qualifications Framework can create the space for their recognition. Recognition of prior learning is an important instrument to promote the inclusion of employees, improving their chances of mobility in the labour market.

In addition to the efforts mentioned above, the private offer of VET is an untapped potential, which should be put at the service of the general objectives of the training strategy.

The main goal and the most complex challenge of the VET system remains updating, expanding and adapting the VET offer to the needs of the labour market, to reduce skills mismatch.

Developing a reliable and quality VET system in the country is a two-way process, requiring time not only for the maturation and improvement of VET providers, but also for the maturation and consolidation of the private sector. Cooperation with the private sector in the field of VET provision, although perhaps the most developed in the employment and skills sector, mainly thanks to the cooperation at the implementation level between VET providers and companies, for the development of professional practices in business. The development units, created near each VET provider, also aim to facilitate the relationship with the private sector, while two sectoral committees have been established. Despite these efforts, the engagement of the private sector is still in its early stages. In the long term, it is necessary to increase the credibility and attractiveness of the VET system, where successful return on investment models of VET attendance will make an essential contribution.

Successful models can have a positive effect on increasing the engagement of employers in the VET system, as an instrument to ensure that employers' contributions increase engagement in the system and, in turn, ensure that the acquired skills match their needs.

### ***Education***

The main priority of the pre-university education system in Albania is to create the conditions and opportunities for students to build competencies, develop independently and comprehensively, to successfully face the challenges of life and the labour market. The current policies for pre-university education in Albania and the National Education Strategy 2021 – 2026, in coherence with European policies, declare as a priority area the empowerment of students with the necessary skills that ensure their fulfilment as individuals, the fulfilment of social responsibilities and preparation for the labour market.

The competence-based curriculum implemented since 2014 in pre-university education is future-oriented and the key competences on which it is built enable students to develop lifelong learning skills, including career management skills.

The Ministry of Education and Sports (MES) relying on the global trends of education today, has set the integration of ICT and digitalization of education as a priority in the strategy for the development of pre-university education. Digital competence means the critical and effective use of ICT at work, at leisure time



and in communication. It relies on basic computer skills to find, produce, create, present and share information, as well as to collaborate in online information networks. In the curricular framework of pre-university education in Albania, digital competence is a cross-cutting competence, which is intended to be developed by all relevant subjects and not only by the subject of Information and Communication Technology.

An important aspect is the implementation of the recommendation of the Council of Europe on learning for the green transition and sustainable development. In this context, the political document of learning standards "Education for Sustainable Development" from the preparatory class 1 to the 12th class was drawn up and approved by the Minister of Education and Sports. Also, environmental issues and sustainable development are included in the curriculum of pre-university education and in curricular documents, topics and modules accredited by accreditation commission on issues such as climate change, sustainable development and environmental education are included in teacher training programs. It is included in the Instruction of the school year 2022-2023, "Environmental education" and several programs that are currently implemented with this focus in pre-university educational institutions.

Higher education aims to provide graduates with the skills needed to succeed in the labour market by developing curricula that respond to the context of today's globalized, innovation-driven and skills-based economies.

In response to the demands of the labour market, the Ministry of Education and Sports has foreseen measures in the National Education Strategy 2021-2026<sup>11</sup>, such as:

- Increasing quality through reorganization of study programs, modernization of academic infrastructure and application of high standards of institutional assessment and study programs<sup>12</sup>
- Better connection of higher education with the labour market. Encouraging HEIs to enrich the offer of programs with a professional character that belong to level 5 of the Albanian Qualifications Framework will enable young people to obtain a high qualification in a shorter time as well as a faster transition to the labour market. Another result defined in this framework is the innovation and excellence program package in manufacturing and IT offering qualifications in innovation, marketing design, research and development, through 100% cost coverage by the government. Promotion of inter-disciplinarily and STEM programs by developing/reforming these programs to be in direct function of promoting the economic development of the country, as they create specialists that are required by employers.

Also, it is provided an activity related to "Promotion of interdisciplinary and STEM programs" which is related to the reformation/development of interdisciplinary programs and STEM programs, which will be in direct function of promoting the economic development of the country, as they create specialists required by employers. These programs help young people develop transversal skills, such as digital competences, critical thinking, problem solving, management and entrepreneurial skills.

## Healthcare

The national health strategy 2021 – 2030 reflects the program of the Government until 2030 assessing health as part of cross – cutting policies and aiming to protect and preserve the health of citizens, as well as providing effective treatment for all problems encountered throughout the life course. Over the past few years, steps have been taken forward in steadily increasing public funding for health and improving the quality of health service. Public health protection programs have been expanded through safe and effective vaccination against communicable diseases and implementation of successful population based screening programs for non-communicable diseases, aiming at the early diagnosis and timely treatment. Investments in primary health care have included the rehabilitation of over 400 primary health centres until 2025.

Moreover the government has invested in the modernization of the Obstetric and Gynaecologist Hospital network by starting with the civil works and new medical equipment's in 6 hospitals followed with major investments also in 4 Paediatric Hospitals. Support for health professionals was and still is a priority within the establishment of better working conditions, continuous education and specific trainings are carried out by biomedical engineers on the user manual of every new medical equipment installed.

Universal Health Coverage remains the main goal and guides the work to strengthen the integrated health system, to strengthen the preparedness and response to emergencies, and improve digital health. In order to

<sup>11</sup> Approved by decision no. 621, dated 22.10.2021 of the Council of Ministers.

<sup>12</sup> In this framework, in accordance with Article 86 of Law No. 80/2015, DCM no. 310, dated 11.05.2022 "On the specifications and content of the codification of study programs offered by higher education institutions in RSH", according to which the study programs will be grouped into codes that identify similar fields of study at the national level according to ISCED fields. DCM no. 824, dated 24.12.2021 "On the approval of the quality code in Higher Education", according to which the New Quality Code is in accordance with European ESG standards.

achieve this goal our continues challenge remains to build on sustainable health policies that have a direct impact on increasing health coverage for our citizens, improving the health and well – being of the population by fulfilling their rights to good health. Thus our work is focused on the following objectives: improving quality of health care by ensuring full access for all Albanian residents based on stable financial system, increasing the number of healthy life years of the Albanian population; modernization of infrastructure and increased safety and quality of hospital care; improving medicine quality and safety in line with EU standards; develop and integrate and better coordinated approach to health care and enhance transparency and accountability and restoring public confidence in health care system.

In the field of drugs and pharmaceutical services the Ministry of Health and Social Protection is in the final legal processes of sending for approval at the Council of Ministers the revised Law on Drugs and Pharmaceutical Services, the new amendments to the existing law that was approved in 2014 aim at a further approximation of the existing legislative act to the EU Directive.

Also, the ministry has concluded the final draft of the revised law on Narcotic Drugs and Psychotropic substances according to the recommendations of the 13<sup>th</sup> meeting of the Subcommittee of EU under chapter 24 Justice, Freedom and Security. The revised law will be published for consultations and within this year will also be sent for approval to the Council of Ministers.

From 2013 the dedicated funds for the reimbursement of drugs from the list have increased by 25%, by guaranteeing not only a full drug package that is offered free of charge to all citizens with chronic disease but also we have included in the list innovative therapies for which 8 years ago citizens had to pay out of their family budget.

The financing of drugs for the treatment of cancer patients has been tripled and now is guarantee 100% free treatment with drugs for patients with breast cancer and blood malign cancer.

Moreover from 2014, there are 600 thousand uninsured citizens that receive medical treatment in all the levels of the public health system covered 100% by the state budget.

450 thousand chronic patients receive free of charge the first alternative drug from the Reimbursement Drug List.

Health care contributions in 2023 amount to 17.077 billion ALL and the projection for the next three years foresees a progressive yearly increase of health contributions at an average of 8%. The projection is that in 2024 health contributions will be 20,153 billion ALL, in 2025 health contributions will be 18,956 billion ALL and in 2026 health contributions will be in the amount of 19,960 billion ALL or an increase of 16.8% compared to 2023.

From the 2013 the government has tripled the budget dedicated to the treatment of cancer disease. In 2013 the budget for cancer treatment was 8.7 million Euro and in 2023 the budget is 22.3 million Euro.

Moreover from 2018 apart from the centralized procurement procedure of drugs the Ministry of Health and Social Protection has guaranteed the treatment of patients with patent drugs for specific diseases through the legal instrument of Management Entry Agreements.

For the period 2018 – 2023 the Reimbursement Drug List has been enriched by new drugs and alternatives, by guaranteeing the treatment of a broader spectrum of group therapies for the patients that are diagnosed with cancer. Today we can cover at 100% the full treatment with the first and second line of medication for 43 diagnoses.

In 2022 was approved the Law on Drugs and pharmaceutical services, amended that brought changes in reference to the inclusion for the first time of the concept of Management Entry Agreements with the aim of providing an opportunity to attract pharmaceutical companies that develop innovative drugs by balancing cost-effectiveness and adding the concept of the Local Marketing Authorization Holder that will provide an opportunity to legal representation of international MAH to be themselves as MAH by ensuring the quality, efficiency of drugs registered in the Republic of Albania and by having an impact on price reduction of drugs, registration costs, and higher access of drugs in the local market. At the same time there will be a reduction of drug production costs, quality ensuring and more favourable prices by increasing the disposability of drugs in our market and reducing drug demand reduction.

For the first time in 2018 we included in the reimbursement scheme also the reimbursement of medical devices. And since 2018 all children and youth till the age of 25 benefit for free the diabetes stripes. In 2022 we decided to increase the age group of citizens who will benefit from the reimbursement scheme of free diabetes stripes that will be implemented in 2023 for every Albanian citizen + 65 years of age.

For 2023 there are 51,483 patients out of which 540 belong to the age group 0 – 25 years old and 50,943 patients + 65 years of age.

In regards to the improvement of the health of the population we will continue the financing and increasing of health packages with the aim of increasing access to medical treatments and providing more health services close to the place of residence, with a special focus on the vulnerable groups.

In order to provide health care services to the disable, the elderly and patients with severe health care problems we are applying from 2021 in primary health care the Home Base Care Model and in 2023 in joint cooperation with Health of All Project, financed by the Swiss Agency and the National Operator of Health Care the model is implemented in total of 59 primary health care centres.

Moreover in 2022 we have introduced psychological and social services within primary health care through the introduction of integrated socio – health care model. Until the end of 2022 the number of psychologists employed in primary health care is 50. In 2023 with the employment of 50 social workers/psychologists, 17 physiotherapist and 17 logopaedist in primary health care through a transparent process we have established 100 primary health care centres that provide the integrated model of social and health care.

From the state budget more than 85% of the needs of the population for treatment of cardiovascular and kidney diagnoses is fully covered and the aim is to increase the coverage by 5% until the end of 2024 by expanding the packages with the dedicated health packages for rehabilitation, palliative and geriatric care.

### **Social protection and inclusion**

Albania allocates 9.2 percent of GDP to social protection, so far. The social protection budget is largely focused on cash assistance. The social protection budget in 2023 has increased by 5% compared with 2022.

The allowances paid under the Economic Aid which is the main scheme that helps to alleviate has been increased during 2021-2022, but are not high enough to combat poverty. More than 224 thousand individuals benefit from this scheme, or 95% of the applications, which covers 36% of the individuals that live under at risk of poverty rate.

To support the social reintegration of the beneficiaries of the economic aid, it is established the mechanism for employment and social reintegrating, through the social services.

Employment status is closely associated with household income levels in Albania, suggesting that employment is central to securing a household's well-being. Roma and Egyptians continue to face skills-related challenges in the labour market.

Social services remain still limited and unevenly distributed around the country, and local governments have limited capacity to provide them. To tackle these issues and improve access to and availability of social services, a Social Fund mechanism has been set up. The Government has taken steps to increase financing to social services, supporting the local level to set up 54 social care services (39 social services at municipality level and 15 specialized services in 7 regions), for more than 26 thousand beneficiaries.

Extending the coverage of the Social Fund beyond the third year of the creation of a new social service is essential to ensure the sustainability of the new social services. However, based on the lessons learned from the monitoring process, the mechanism requires further consolidation and improvement to ensure sustainability of services and equity in distribution even in those local government units that do not have and/or distribute sufficient financial resources to support and increase the availability of social services, which are under their direct responsibility.

Within the revision process of legal framework of the methodology in regard of evaluation and allocation of the national Social Fund, the priority will be paid to review the specific criteria, such as: i) the greatest need for social services; ii) geographic and demographic distribution of services, iv) social and economic situation of municipalities; v) the application with the joint project that includes several border municipalities, accompanied by an agreement between them.

The government has undertaken the implementation of the Deinstitutionalization plan, as a process of transforming residential institutions into different typologies of services alongside other family strengthening programs. In order to support this process and increase the satisfaction of the needs of vulnerable groups, there is a need for a further increase in the budget of the Social Fund. The table below shows the progress in social care services programme:

Year	No. of care institutions	No. of social care services	No. of beneficiaries	% of population receiving basic package of social care services
2021	337	492	10,000	0.5%
2023	391	1,147	36,642	1.5%

Source: Mapping of Social Services in Albania 2023

There is a need to further increase funding for social protection, and healthcare program in order to improve social inclusion.

## *Structural Reforms*

### **SR #1: Education and skills**

#### ***Reform measure 1.1: Increasing the quality and access to VET***

##### ***1. Description of measure***

The National Employment and Skills Strategy 2023-2030 is the main policy document that guides the implementation of actions related to employment and skills development in the country. The strategy has been finalized and is under approval by the Council of Ministers. The vision of this document is “Quality jobs and lifelong skills for all” and VET pillar “Skills development and better matching of demand with supply in the labour market for increased employment”. The objectives of this document are:

- Systematic engagement of the private sector in skills development - VET and Employment;
- Ensuring evidence based governance of labour market and VET policies;
- Supporting and promoting quality and inclusive lifelong learning for enhanced employability; and
- The digital transformation of VET and employment and the connection to the green economy.

The main measures:

- Development of relevant, flexible, permeable and evidence-based VET system;
- Strengthening the quality assurance and development framework in the VET;
- Systemic and systematic private sector engagement in VET;
- Foster inclusive lifelong learning opportunities for all;
- Recognition of Prior Non-Formal and Informal Learning;
- Digitalization of Employment services and VET provision;
- Creation of the skills intelligence system that provide regular signals on labour market and VET developments.

Provision of quality vocational education and training for young people and adults are the overall strategic priorities of VET. For this purpose, a plan for the optimization of public providers of education and professional training has been drawn up and is being implemented by the ministry. Also in this direction, some legal amendments have been made. The positive experience of collaborating with the business community should extend to all areas offered by vocational schools and do not be limited to hotels-tourism, vehicle services, etc. fields.

##### **a. Activities planned in 2024**

- a. The National Council of VET, which is now institutionalized, continues its activity normally. The creation of Sectoral Committees according to fields will follow.
- b. Promotion of VET through Open days, fairs and Olympiads.
- c. Develop the competencies of 200 VET teachers and supporting staff as well as teacher trainers.
- d. Based on the optimisation plan of public VET providers, the first multifunctional centre is in place.

##### **b. Activities planned in 2025**

- a. Continue the implementation of “Strategy of Employment and Skills 2023-2030”, based on the Action Plan.
- b. Develop the competencies of 150 VET teachers and supporting staff as well as teacher trainers.
- c. Follow-up of the work by NAVETQ for the accreditation of public/private providers of professional education.
- d. Through accredited public and private VET providers, the beginning of the process of recognition of previous learning.

##### **c. Activities planned in 2026**

- a. Continue the implementation of “Strategy of Employment and Skills 2023-2030”, based on the Action Plan.
- b. Develop the competencies of 150 VET teachers and supporting staff as well as teacher trainers.
- c. Follow-up of the work by NAVETQ for the accreditation of public/private providers of

## 2. Results indicators

Indicator	Baseline (2018)	Intermediate target (2024)	Target (2026)
% of students who finish VET schools and find a job	0	58%	60%
% of those enrolled in VET in relation to the total of those enrolled in secondary education	19%	20%	21%
% of female students attending VE schools	17%	20%	22%

## 3. Expected impact on competitiveness

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

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

The costs for implementation of the VET measures are included in the Medium-Term Budget Program. The total cost of the VET measure for three years is EUR 90 million, or ALL 9.5 billion (30.1 mn euro for 2024; 29.9 mn euro for 2025; and 30 mn euro for 2026)

Also in the field of education and professional training, there are many projects financed by donors, which contribute to strengthening and reforming the system. We mention funds from the EU, Germany, Switzerland, Italy, Austria, etc.

## 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

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

## 6. Expected impact on the environment and climate change

The reform measure is not expected to have an impact on the environment. They are seen with green economy.

## 7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Inadequate availability for on-the-job training/internship in the market	Low	Awareness campaign for businesses for the recognition and implementation of the regulation of learning in the workplace.
Inadequate level of coordination with businesses for better support on VET	Medium	Strengthening the role of the development unit of providers and business associations by increasing the capacity of business coordinators
Lack of high technology equipment	Medium	Identification, planning of needs and costs for equipping VET providers for digitalization and focus and investments for technology growth.

## ***Reform measure 1.2: Development and empowerment of digital competency of teachers***

### 1. Description of measure

The biggest challenge in developing competencies for teachers is the need for specific digital competences that enable them to use technology to support, improve and transform the teaching process, as well as for other responsibilities at school.

At the European level, these competencies are included in a competency framework for teachers (European Framework for Digital Teacher Competence, DigComEdu). UNESCO has also developed the ICT Competence Framework for Teachers (ICT CFT, version 3), as a document to guide the development of teachers in the use of ICT.

During 2022- 2023 academic year, for the first time, the ICT subject was developed in the first grade in 100 pilot schools, under the "Element IT" pilot project which has already been completed in close collaboration with the MES, Minister of State for Youth and Children, the National Agency of Information Society (NAIS) and the Albanian - American Development Fund (AADF). To assist teachers and students, the inter-institutional working groups have worked together to provide supplemental materials, such as Teacher Manual, to help teachers develop their abilities to teach the first grade ICT curriculum, and the Student's Workbook to develop students, teachers and parents to facilitate the teaching and learning process in the subject of ICT. About 100 teachers are also being trained for new ICT Curriculum, CodeMonkey platform that offers educational resources for students of different grades and experience levels, usage of ICT laboratories and SMIP for the implementation of this project.

Monitoring of the Element IT project has been organized in 100 pilot schools for the implementation of the ICT subject in the first grade and the findings from the report show that the subject is very attractive and learning through the game is considered by teachers and parents as a very efficient methodology for creating the right climate for learning ICT in the first grade.

Another 200 SmartLabs will be constructed for the next school year, within the "GovTech" program with the cooperation of the World Bank, ratified by law no. 45, dated 22/06/2023 "On the ratification of the loan agreement between the Republic of Albania and the International Bank for Reconstruction and Development for "Improving equal access to high standard public services through the GovTech operation" (entered into force on 19.07.2023).

MES has planned the design and implementation of ICT programs for the third year after year starting from class I in 2022, class II in 2023 and class III in 2024.

The improvement of the digital infrastructure, the continuous professional development of teachers and school principals, the maintenance of equipment, etc., continue to remain priorities for the future.

#### **a. Activities planned in 2024**

- a. Design and approval of the Information and Communication Technology program and its implementation in the first and second grade, and drafting the supporting material for teachers and students to include coding skills and its implementation for the third grade.
- b. Training of about 600 teachers and 200 school principals on teacher standards for the use of ICT in the pre-university education system through professional networks.
- c. Investment in increasing the number of digital devices in schools.

#### **b. Activities planned in 2025**

- a. Design and approval of the Information and Communication Technology program and its implementation in the first, second and third grade, for the 2025-2026 academic year.
- a. 216 SmartLabs will be fully functional by 2025 and technical assistance will be required, regarding the application of appropriate technical solutions for collective schools, noting similar experiences in international arena.
- b. It is under negotiations the extending of the ICT subject to about 627 other schools through the Western Balkans Investment Framework (WBIF) together with the Council of Europe Development Bank (CEB).

#### **c. Activities planned in 2026**

- a. Develop a costed replacement plan to ensure sustainability of Smartlabs beyond the life of the GovTech Program and ElementIT. Incorporate costed replacement plan into rolling three-year ICT in Education Strategy.

## **2. Results indicators**

	<b>Baseline</b>	<b>Intermediate Target</b>		<b>Target</b>
	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>

1) Number of school principals participating in initial training	300	0	0	0
2) Number of ICT teachers participating in initial training	200	0	0	0
3) Number of grade teachers participating in initial training	400	400	0	0
4) Number of digital education officers participating in initial training	51	0	0	0

### 3. Expected impact on competitiveness

Information and communication technology (ICT), which includes computers, tablets, smartphones, interactive tables and other accessories, can have a positive impact on improving the quality of teaching, increasing motivation and improving student performance, by ensure that all students are able to acquire good level of digital competence to meet the knowledge demands of 21st century societies and enable this generation of students, in the long run, to be better prepared for the market of work: either as an employee or as a job creator.

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

The costs for implementation of this measure are included in the Medium-Term Budget Program of Ministry of Education and Sport (MES). The total cost of the measure for three years is EUR 13 million, 8.8 million euro for 2024; 2.4 million euro for 2025; and 1.8 million euro for 2026.

### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The measure is considered gender neutral. Gender equality will be respected throughout the implementation of the measure.

### 6. Expected impact on the environment and climate change

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

### 7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Lack of trained teachers with the relevant ICT profile for primary education (for the first, second, third, fourth, fifth grade).	Low	More ICT students graduating in the teaching profile. Cooperation with Higher Education Institutions. Action plan for ICT teacher training.
Budgetary difficulty in equipping all schools with access to the Internet.	Medium	Cooperation with NAIS and the local government responsible for school administration.

## **SR #2: Access to social protection and healthcare, and increased employability for vulnerable groups**

### ***Reform measure 2.1: Improving accessibility in social programs and healthcare***

#### 1. Description of measure

The overall goal of this measure is to expand the coverage, inclusiveness, effectiveness, and better targeting people in need through employment and social services and health care. Particular attention will be paid to: i) develop new model of integrated social services ii) continue the implementation of the deinstitutionalization national action plan; iii) finalise and implement the legal framework of the methodology in regard of evaluation and allocation of the national Social Fund; iv) increase the employability of vulnerable groups, especially from the NE scheme v) strengthen the capacity of local government in the referral and management of the case through the electronic system and in the procurement procedures for social care services.

The new national Social Protection Strategy 2024-2030 will address the shock responsive system, in order to better response to the different crises.

**a. Activities planned in 2024**

- a. Establish a mechanism for the annual indexation of the 'Economic Aid' benefits.
- b. Set up 12 new integrated community-based social services, in partnership with NGO-s, focusing on specialized and home assistance services within the frame of Social Fund.
- c. Expand the deinstitutionalisation process of public development centres for children with disability.

**b. Activities planned in 2025**

- a. Evaluation of the economic assistance scheme for special categories and improvement on this basis of the criteria and cash assistance for them.
- b. Development of the child guarantee framework.
- c. Set up 10 new integrated community-based social services, in partnership with NGO-s, focusing on mobile specialised and home assistance services within the frame of Social Fund.

**c. Activities planned in 2026**

- a. Drawing up options for better targeting and focusing of needs within the framework of the action plan for the guarantee of children.
- b. Set up 5 new integrated community-based social services, in partnership with NGO-s, focusing on supporting families' services within the frame of Social Fund.

**2. Results indicators**

Indicator	Baseline (2021)	Intermediate target (2023)	Target (2025)
Number of social services for disadvantaged groups provided through local government units using resources from social fund	30	45 (cumulative)	55 (cumulative)
The percentage of NE beneficiary individuals who exited the scheme and are reintegrated	5,5%	10% (cumulative)	15% (cumulative)
% of population at risk of poverty and social exclusion	43,9%	43,4%	43.2%
% of citizens benefiting from public health care services	93%	95%	97%
Number of citizens that benefit from the 12 health care packages and the 3 national screening programs financed 100% by the state budget	+5%	+5%	+5%

**3. Expected impact on competitiveness**

The reform measure aims to improve employability, skills and qualifications of the unemployed jobseekers; therefore increasing the quality of the labour force. In the medium to long term, the measure is expected to help the economic and social reintegration of the unemployed jobseekers and the beneficiaries of economic aid scheme.

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

Social Protection & Inclusion Budget for 2024 is 291,516,739 EUR

Social Protection & Inclusion Budget for 2025 is 296,344,525 EUR

Social Protection & Inclusion Budget for 2026 is 299,280,918 EUR

The Health Budget for 2024 is 610 million euro or 2.97% of the GDP and 9.74% of the State Budget.

The Health Budget for 2025 is 621 million euro or 2.77% of the GDP and 9.1% of the State Budget.

The Health Budget for 2026 is 632 million euro or 2.68% of the GDP and 8.91% of the State Budget.

**5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care**



Reduce unemployment and high passivity, especially in the group of young people and women. Increasing the satisfaction of women and girls involved in active labour market programs. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (SDG 8 Decent Work and Economic Growth and SDG #5: Gender Equality).

Improving the socio-economic situation of the categories in need, the direct impact on poverty alleviation by increasing the level of benefit of economic assistance. Increased access to the basic package of social services. The impacts are largely expected to be positive and will result in improving the socio-economic inclusion of the poorest and most vulnerable communities in Albania by providing better targeted and more adequate social assistance and improved access to social services and employment support.

#### 6. *Expected impact on the environment and climate change*

The measure is neutral in terms of environmental impact.

#### 7. *Potential risks*

<i>Risk</i>	<i>Probability (low, high)</i>	<i>Planned mitigating action</i>
Lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector.	Low	By having monitoring, reporting and close cooperation between relevant stakeholders (employers' organisation, CSO, local government other Ministries etc.)
Increasing the trust of citizens in the services provided by the employment offices VT centres.	Low	Publications of active programs, as well as successful cases with all possible electronic means and through the media
The lack of improvement in the quality of the provision of social services at the regional and local level, due to the lack of qualified capacities of local social staff.	Low	Close monitoring of training activities and increasing the number of available trainers.
Delays on specific activities especially relating to the remodelling of health care financing	Medium	a team that has started working for the development of a detailed plan
Lack of political will	Low	A commitment of the highest levels of government, and inclusion of all possible partners in the sector

### ***Reform measure 2.2: Improving the employability of the most vulnerable unemployed jobseekers***

#### 1. *Description of measure*

The National Employment and Skills Strategy 2023-2030 (NESS) approved by the Council of Ministers (DCM no. 173/2023) and its action plan with the vision "Quality employment and lifelong learning for all" is in line with "Chapter 19" Employment and Social Policy, and recommendations of the European Commission for Employment and Social Policy. The policy goals of this Strategy are (i) skills development and better matching of demand with supply in the labour market for more employment; (ii) enabling decent employment for women and men through the implementation of comprehensive labour market policies. The action plan is focused on enabling decent employment through the implementation of comprehensive labour market policies and skills development and better matching of demand with supply in the labour market for higher employment.

The Employment promotion programs supporting most vulnerable groups have been implemented in continuity. Programmes include on-the-job Training, wage-subsidy, internship programme, self-employment Programme, and community employment. A new program on reintegration of most vulnerable groups with the support of NGOs has been drafted and is under consultation with the line ministries. A new program on traineeship that will be implemented in the framework of the Youth Guarantee.

The National Youth Guarantee Implementation Plan has been approved by the Council of Ministers. The pilot phase is foreseen and will be carried out in 2023 -2024. The piloting of the Youth Guarantee scheme will take place in three regions, namely Tirana, Shkodra Vlora. Meanwhile, the National Employment and Skills Agency, with the support of the EU-IPA project for Social Inclusion, has trained the staff of the employment offices for the pilot. For the pilot phase, funds are already available from the State Budget. In the meantime, MFE and NAES have undertaken a series of measures for the starting of piloting. The legal basis where the Youth Guarantee is included is approved. NAES has designed the 2023-2024 youth guarantee pilot plan and the "Youth Guarantee" website was designed and populated along with the statistical program that has been designed for monitoring the piloting phase.

**a. Activities planned in 2024**

- a. Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance.
- b. Piloting of Youth Guarantee Scheme.
- c. The implementation of employment promotion programs aimed at supporting the most vulnerable groups and activation of registered unemployed jobseekers.
- d. Evaluation of the impact of employment promotion programs.
- e. Development and publication of information and quality analysis of the labour market and improvement of public relations.

**b. Activities planned in 2025**

- a. Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance.
- b. Rollout the Youth Guarantee Scheme.
- c. The implementation of employment promotion programs aimed at supporting the most vulnerable groups and activation of registered unemployed jobseekers.
- d. Reviewing the EPP based on the evaluation of the impact.

**c. Activities planned in 2026**

- a. Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance
- b. Implementation of the Youth Guarantee Scheme
- c. The implementation of the reviewed employment promotion programs aimed at supporting the most vulnerable groups and activation of the registered unemployed jobseekers.
- d. Publication of information and quality analysis of the labour market and improvement of public relations.

**2. Results indicators**

Indicator	Baseline (2022)	Intermediate target (2024)	Target (2026)
Employment rate (%) of labour force [15-64]	65%	66%	67%
Youth unemployment rate (%) of labour force [15-24]	24.9	24%	23%
Employment rate (%) of vulnerable individuals of the total employed from the EPP	Baseline 2022	Baseline 2024 +1pp	Baseline 2026 +2 pp
Youth not in employment, education or training (NEET rate) (age group 15-29 years old)	25.2%	24%	22%

**3. Expected impact on competitiveness**

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

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

	Labour market program	2024	2025	2026
		PBA 2024	PBA 2025	PBA 2026

Mediations carried out by Employment Offices	NAES regional directories (intermediation expenses and other employment services)	4,391,543	4,391,543	4,391,543
Implementation of employment promotion programs	Employment promotion program	6,190,476	6,190,476	6,190,476
	Coding program	1,904,762	1,904,762	1,904,762
	Youth guarantee	1,904,762	1,904,762	1,904,762
Training in VTC	Vocational Education in DRFPP	3,789,981	3,789,981	3,789,981
Other administrative expenses	NAES central directory	1,576,695	1,576,695	1,576,695
Investment	Investment	1,914,286	1,438,095	1,438,095
Unemployment Payment	Unemployment payment	8,571,429	8,571,429	8,571,429
Total (w/ administrative expenses)	Without unemployment payment	<b>21,672,505</b>	<b>21,196,314</b>	<b>21,196,314</b>
Total (w/ administrative expenses)	Total	30,243,933.3 3	29,767,742.8 6	29,767,742.8 6

5. *Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care*

Reduce unemployment and high passivity, especially in the group of young people and women. Increasing the satisfaction of women and girls involved in active labour market programs. Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all (SDG 8 Decent Work and Economic Growth and SDG #5: Gender Equality).

6. *Expected impact on the environment and climate change*

The measure is neutral in terms of environmental impact.

7. *Potential risks*

<i>Risk</i>	<i>Probability (low, high)</i>	<i>Planned mitigating action</i>
Lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector.	low	By having monitoring, reporting and close cooperation between relevant stakeholders (employers' organisation, CSO, local government other Ministries etc.)
Increasing the trust of citizens in the services provided by the employment offices VT centres.	Low	Publications of active programs, as well as successful cases with all possible electronic means and through the media
Lack of improvements of quality of services in regional and local level, due to insufficient training	Low	Close monitoring of training activities and increasing the number of available trainers.

## II. Sustainability and resilience

### *Analysis of main obstacles*

#### **Energy**

Albania has taken steps towards energy efficiency and climate action with the introduction of its 2030 energy efficiency targets and associated policies and measures, outlined in the National Energy and Climate Plan (NECP) 2020-2030 is in place, however it is under revision to align with the 2030 new targets in place. Being vulnerable to hydrological conditions and insufficient to meet its energy supply needs, Albania is a net importer of electricity. Dependence on energy imports counts 20-30% of the energy demand and ensuring the security of its power supply is a challenge. The system must rely on domestic production and being affordable

for consumers by creating an impact on poverty reduction.

The energy efficiency sector in Albania is regulated by two important laws, the Law "On Energy Efficiency" and the Law "On Energy Performance in Buildings", and the related bylaws. Ministry of Infrastructure and Energy has enacted new by-laws to implement the Energy Efficiency Law. Progress has been made covering aspects such as local energy efficiency action plans, monitoring and verification and building requirements and reporting system. Further by-laws addressing key areas like energy efficiency obligations, and criteria for public procurement are ongoing and remain a priority.

The main challenge will be their implementation to improve efficiency and reduce final energy consumption in buildings, in industry, services and other activities of central government and local units with the focus on water supply systems, wastewater treatment, public lighting, public transport, etc., through:

- Drafting missing bylaws,
- Implementation of new adopted bylaws,
- Additional policies and measures are required to support these objectives,
- Investments in capacity-building,
- Awareness activities on EE through labelling of energy related products, informative champagne etc.,
- Financial support.

Priority remains investments in energy efficiency which are ongoing with continuous support from the state budget and foreign financial aid. Although the state budget has increased the contribution in this area for the period 2022-2025, the lack of financing instruments to enforce the implementation of measures in energy efficiency is to be addressed.

The target of achieving a 54,4 % share of renewable energy in gross final energy consumption as outlined in the adopted National Energy and Climate Plan (NECP) is incorporated in the amended Renewables Law. The overall 2030 renewable energy target is subdivided into sectorial targets for electricity (178.1%). After the approval of the new RES law, "Feed-in Tariff" (FiT) schemes will no longer be granted and are replaced by "Feed-in-Premium" (FiP), subject to transitory provisions under article 30. Such support, mainly in the form of Contract for Difference will be granted through competitive bidding processes (Auctions). Project-DCM "On the Model of the Contract for difference, conditions and procedures" will change the operating model of the RES market. In terms of active self-consumption scheme, Albania put net metering in place, enabling consumers to possess renewable energy installations with a maximum capacity of 500 kW. Albania has already incorporated changes into the Renewables Law, which outlines a transition to net billing for self-consumed renewables, scheduled to commence on 1 January 2024. Supporting secondary legislation is missing.

Energy in Albania is produced 100% from renewables (99% by HPP-s and 1% by PV), counting one of the highest renewable energy shares in the energy mix among the countries the world. The majority of the total net domestic production is generated from the plants owned by the public company KESH and the other part is generated by independent and priority generation plants. The number of the independent producers of electricity is growing every year thus raising the importance of these producers in the market, which is a significant step for the liberalization of the electricity market in our country. The deployment of solar and wind resources will improve Albania's energy security and reduce its vulnerability to climate change impacts. Albania has already fully transposed electricity market rules stemming from the EU Third Energy Package and has reached a good progress in their practical implementation through legislative developments, sectoral reforms, and gradual opening of the electricity market. Gradual opening of the electricity market scheduled by the CoM is expected to result in full market opening in 2024. While power interconnection with neighbouring countries and setting up an integrated regional energy market, will strength the security of supply and create opportunities for green energy development and trading.

### **Digital transformation**

Digital infrastructure and broadband is crucial for all other developments in digital integration and impacts all sectors of the economy. Digital infrastructure is a precondition for developments of digital economy in innovative industry, e-government, e-health, provision of interoperable services, provision of cross border services etc. As demonstrated during the COVID-19 pandemic crisis, digital connectivity was a vital necessity for citizens and businesses. The total number of fixed broadband subscribers in 2022 stood at 582,110 with an increase of 5% compared to the previous year. About 87% of total fixed broadband subscribers have

internet access up to 10 Mbps, 39% of total fixed broadband subscribers have internet access between 30 to 100 Mbps, while 12% of them have internet access between 100 Mbps to 1 Gbps.

However, related to the development of broadband, in particular fixed networks, there remains the digital divide between urban and rural areas, and the need for investment in the development of digital broadband infrastructure, especially in rural and remote areas. The main reasons for the digital divide are the lack of infrastructure and institutional capacity, but also the economic affordability, for both types of access, fixed and mobile Broadband, especially in rural and low-income areas.

A fully-fledged Feasibility Study on broadband development was prepared with the support of EU through WBIF project. The feasibility study has estimated the investment costs for future proof broadband investment in white areas, grey areas, and black areas under different scenarios. The development of broadband networks requires huge investments, especially to cover the white areas. The main investments in telecommunication sector including broadband infrastructure came from the private sector.

Regarding network investment, most local operators invest in cities and tourist areas, in fibre networks, while national operators invest mainly in city centres. There is a lack of investment in rural areas due to lack or low returns on investment. The development of digital and broadband infrastructure requires large investments and the creation of synergy between all infrastructure projects and projects related to digitization at the central and local level.

The obstacles to digital transformation and innovation in Albania, while not exhaustive, include various challenges:

- **Limited Digital Infrastructure:** Albania faces challenges in its digital infrastructure, including limited access to high-speed internet in rural areas and outdated or insufficient technological infrastructure.
- **Skills Gap:** The shortage of a skilled workforce in the field of digital technology can impede the pace of digital transformation. This includes the lack of professionals skilled in emerging technologies like AI, cybersecurity, and data science.
- **Cybersecurity Concerns:** With the increase in digital systems, cybersecurity threats also rise. Insufficient cybersecurity measures, lack of awareness, and preparedness against cyber-attacks could impede digital transformation efforts.
- **Access to Capital:** Funding and investment in innovative technologies and digital transformation projects might be limited. Access to capital for start-ups and entrepreneurs looking to innovate in the digital space can be a challenge.
- **Resistance to Change:** Cultural and organizational resistance to change might slow down digital transformation initiatives. Many traditional businesses or institutions may be reluctant to adapt to new technologies.
- **Data Privacy Concerns:** Ensuring data privacy and protection in a digital environment is a significant challenge. Adhering to international standards while building digital systems and services can be demanding.
- **Digital Divide:** Disparities in access to digital technologies between urban and rural areas could slow down the overall digital transformation process, affecting inclusivity and equal participation.

Addressing these obstacles requires concerted efforts from the government, private sector, educational institutions, and civil society. Initiatives involving policy reforms, investment in education and training, fostering an innovation-friendly environment, and creating awareness about the benefits of digital transformation could help overcome these challenges in Albania.

The National Agency for Information Society (NAIS) was established to lead the digitalization effort in Albania. NAIS has led investments in a range of digital government enablers, and it has expanded in staffing and capacity. There are also now dedicated NAIS staff in many line ministries.

NAIS launched the E-Albania portal in 2012 and, today, applications for 95 percent of all central government public services are online with high corresponding levels of automation. The portal currently provides access for around 2.8 million registered users (individuals and businesses) to 1,227 digital services. Moreover, significant progress has been made in increasing the levels of automation of the 1,227 digital services.

To provide alternative channels for service delivery, one-stop-shop citizen service centers (CSCs) were also created in Albania. The Agency for Delivery of Integrated Services in Albania (ADISA) was established in 2014 to monitor service delivery and to establish the CSCs. Ten CSCs were established.

Subsequently, in late 2019, the GoA took a step to further accelerate its digital transformation to “online only” (or “digital-by-default”) service applications. Following this, the next step in the GoA vision of moving to “digital-by-default” was to mandate the closure of the front offices that did not require a physical presence for the service application. The GoA’s stated objective was to reduce corruption and to provide further incentives for the entire Albanian population to use, to the maximum extent possible, digital services. This measure resulted in existing ADISA offices being temporarily closed, and they are now in the process of being converted into multi-functional Youth Innovation Centers (YICs).

Digitalization reforms have also been applied at the sectoral level, including in the education sector. In terms of human capital, some progress has been made in the education sector through modernization and digitalization efforts. For example, the National Education Strategy (NES) 2021-2026, in its Specific Objective 5, commits to developing digital competencies through better use of Information Communication Technology (ICT) for teaching and learning. Although some progress has been made, significant efforts and resources would be required to achieve the stated goals.

Overall, Albania’s notable progress on the digital transformation has been recognized internationally.

Despite the progress, important problems persist from the perspective of service users. The user should be the starting point for a user-centric GovTech reform program. Key problems from the user perspective are summarized as follows:

- **Difficult Access and Usability** – for some users, the e-Albania portal is not sufficiently easy to use, and some users revert to third parties for assistance in making digital service applications.
- **Unequal Access** – vulnerable groups, such as the poor (including the Roma), elderly, lower educated women, or the disabled, lack the digital literacy and devices to easily avail of digital services.
- **Poor Quality** – some digital services still involve delays or complex application procedures, or users complain of poor quality in social services.
- **Limited Trust** – users request more information regarding data privacy or believe that their feedback on digital services is not sufficiently addressed.

### **Green transition**

Albania, although a small country with a low emission contribution, is determined to assume its share of responsibility in this process and has taken action to support green growth and revitalisation in recent years.

The Ministry of Tourism and Environment has taken very important steps towards policy documents by approving a National Strategy, a law and action plans on climate change.

To support the objectives of the European Union Green Deal, Albania signed two Declarations at the Sofia Summit in November 2020: the Western Balkan countries on the Green Agenda, as well as the creation of a Common Regional Market, which aim to make the economy sustainable and climate-neutral by 2050, through a set of comprehensive political and financial initiatives and reforms.

Recognising the potentials of the green economy in Albania, the government and all stakeholders need to synergise and strategize towards removing barriers to effective implementation of a green economy. Some of these barriers include lack of awareness, the inadequacy of data, poor coordination among green economy actors as well as human and institutional capacity gaps.

Lack of knowledge on the opportunities of green economy as well as a lack of skills could pose several challenges to not only policy formulation but also cross-sectorial adoption of the concept.

In Albania, awareness of green economy is generally weak. This is also reflected in major gaps in human and institutional capacity in putting to practice the green economy concept.

The political will among stakeholders to enforce the implementation of policies following green economy procedures is still very low. Main reason for this is limitations in the budget and as a result we don’t see progress on the implementation of environmental and green economy policies. To ensure proper implementation of green economy programmes, it is crucial that public institutions need to be strengthened to remove institutional barriers, protect the environment and reconcile socio-economic objectives.

Albania will set out specific guidance to help its citizens to implement the climate policy package and ensure a fair transition towards climate neutrality, by addressing the relevant employment and social aspects linked to the transition in a comprehensive manner. Particular attention will focus on addressing the needs of the people and households that are highly dependent on F-gases and could be most affected by the green transition.

Through all this process the government will make optimal use of public and private funding and work in close cooperation with partners and donors.

### **Transport**

The number of automobiles in Albania is increasing year by year, leading to higher levels of air pollution; while exposure of the economy to the number of electric cars is still low in traffic jams. Extending the railway system, modernising urban transport, and incentivising the electrification of road transport is among the solutions to make transport, including transport of dangerous goods, more sustainable, greener, smart and affordable.

The low volumes by rail, in certain segments are deriving especially in missing links with ports, and airports. The quality of urban transportation is low number of the e-charging stations for electric car, missing the car-sharing and e-car pooling with the multimodal terminal stations by rail, and by cars, and other modes.

The shortage of the smartcards are for the train drivers licenses and complementary certificates, as in acquis. Lack of training schools licensed for train conductors are in the operational trains' including TDG.

The bottleneck is in the interoperability aspects, and national legislation for the traffic management systems. Transport market has evaluated the socio-economic effects analysis, through the organization of programs, open procurements and business development planning.

### *Structural Reforms*

## **SR #3: Renewable energy and green transition**

### ***Reform measure 3.1: Promoting renewable energy and reducing the carbon footprint***

#### ***1. Description of measure***

If the countries of the Western Balkan are to follow the same trend as EU countries, leading to the decrease of air pollution, improvement of human health and decrease of health costs, decarbonisation is the most important step forward.

As a country that has opened negotiation process Albania is transposing the EU legislation, Regulations to more tightly control fluorinated greenhouse gases (F-gases) and ozone depleting substances (ODS). The adoption of these regulations would represent a significant step towards limiting global temperature rise in line with the Paris Agreement. The Approval of Law no.2/2023 “on fluorinated greenhouse gases” will also contribute to reducing emissions by at least 55% by 2030 and making Albania climate-neutral by 2050.

F-gases and ODS are highly potent, human-made greenhouse gases that contribute to global warming when released into the atmosphere, often several thousand times stronger than carbon dioxide (CO<sub>2</sub>). ODS damage the ozone layer that protects the Earth against dangerous ultraviolet radiation from the sun. Both types of substance groups have or used to have practical applications in everyday life, for example in refrigeration, air conditioning, insulation, fire protection, power lines and as aerosol propellants. The aim of this reform is to limit the use and emissions of these gases significantly, the regulations proposed today will reduce emissions even further and provide incentives to use climate-friendly alternatives.

The approval of the Law no.2/2023 “on fluorinated greenhouse gases” and its implementation will regulate the following issues: 1. Blockage of the market; 2. Confusion in market surveillance; 3. Weak and insufficient safety and quality standards; 4. Lack of information.

Furthermore, the intervention is needed to set up the licensing scheme for entrepreneurs operating on the market with fluorinated gases or equipment containing fluorinated greenhouse gases as well as to improve reporting, leakage control, labelling, company certification and requirements for the registration of personnel for equipment containing F gases in five industrial sectors: (a) fire protection, (b) mobile cooling equipment (MAC), (c) high voltage (HV) equipment and (d) solutions for cleaning (e) stationary cooling equipment and air conditioners.

The measure is in line with the strategic framework of the National Energy Strategy (2018-2030), the National Energy and Climate Plan (2020 – 2030) and the government's vision for the development of the energy sector by increasing energy security, increasing production capacity through diversification, energy efficiency measures, and the increase of energy transmission capacity, in a sustainable way and environmentally friendly. The National Energy and Climate Plan 2020–2030 approved, amongst others, establishes Albania's targets and measures for the use of renewable energy sources, energy efficiency and decarbonisation up to 2030.

In the area of energy efficiency, MIE has adopted new by-laws for the implementation of the Law on Energy Efficiency, and other by-laws that address key areas such as obligatory energy efficiency schemes and criteria for public procurement are under preparation. Adoption of these measures remains a priority.

The approval of the Law "On the labelling of products with impact on energy" within the year 2024, will determine the obligations for traders and suppliers to inform end-users about the energy consumption of the products they place on the market it is another priority. The law defines the legal framework for achieving national objectives for energy efficiency, informing the end consumer, and monitoring the market of energy-related products and its implementation will make more effective green public procurements for this category of products.

Investments in energy efficiency are ongoing through the investments of the state budget and foreign financial aid projects. Incentives from the local government for individual investments in EE measures in the residential sector and through the finalization of several feasibility studies that are in process by the Energy Efficiency Agency. Meanwhile, several projects are in process of implementation (reconstruction and construction) which are followed by the Agency for Energy Efficiency. The project of the Rehabilitation Program of the Dormitories of the University of Tirana according to the Principle of Energy Efficiency financed by KfW has started in 2020 and will be finalised within 2026. The project focuses on the implementation of efficiency measures in order to improve energy efficiency and student comfort conditions, including the implementation of minimum standards and requirements for building components ancillary.

The preparation of by-laws pursuant to the new law on RES which will regulate the renewable energy market in Albania remains a challenge even though the new generating capacities are primarily private investments.

Investments in renewable energy sources are ongoing mainly through private initiatives and competitive processes. However, also the state owned generator, KESH, is undertaking several project to extend its installed capacities, as part of its effort to mitigate its hydro reliance, both in the short term and longer terms investments such as: Floating Solar PV plant on the Vau i Dejes Reservoir (12.9MWp), two PV plants on existing Dams on the Vau i Dejes Hydro Power Plant (13MWp combined), Belshi Solar PV (50MWp), Fierze-Komani Pump Storage Plant and Skavica Hydrp Power Plant. Some of the long-term ongoing private activities related to the competitive procedures are: Photovoltaic Plant of Karavasta, Photovoltaic Plant of Spitalla, and Wind Auction Onshore where 3 projects were selected. For the next years, Albania will also continue to explore its offshore wind potential.

To date, there are 240MW of solar projects and circa 225MWp of onshore wind projects selected through the competitive procedures (auctions) where support is provided for 15 years, initially with a fixed electricity price (determined as a result of the auction) and then converted into a a Contract for Difference (CfD), once a liberalized electricity market is in place following a positive assessment by ERE. There are also a few renewable energy plants being contemplated from private investors, outside the competitive schemes. However, they are at early stages of their development.

#### *Interconnection lines*

All the ongoing projects regarding interconnection lines are important to ensure energy security and affordability as foreseen through the European Connectivity agenda and create opportunities for the development and trading of green energy.

- 400 kV Interconnection line Elbasan (Albania) – Bitola (North Macedonia)
- 400 kV interconnection line Albania (Fieri) – Greece (Arachtos).

#### **a. Activities planned in 2024**

- a. Approval of bylaws foreseen by the Law on F-gases.
- b. Creation of the certification scheme for the natural persons working with F-gases or equipment which functions rely on F-gases.
- c. Approval of legal framework on EE, RES and transposition of Electricity directive.
- d. Approval of amendments to the Power Sector law, in line with the Clean Energy Package.
- e. The Rehabilitation Program of the Dormitories of the University of Tirana according to the Principle of Energy Efficiency.

#### **b. Activities planned in 2025**

- a. Approval of bylaws foreseen by the Law on F-gases.



- b. Establish the Electronic Register in the National Environmental Agency.
- c. Functioning/Implementation of the certification scheme for natural persons working with F-gases or equipment whose functions rely on F-gases.
- d. Continuation of the licensing scheme for F-gas undertakings.
- e. Approval of legal framework on EE and RES.
- f. The Rehabilitation Program of the Dormitories of the University of Tirana according to the Principle of Energy Efficiency.

**c. Activities planned in 2026**

- a. Implementation of Decision of the Council of Ministers for the approval of the allocation of the annual import quotas of hydrofluorocarbons and/or equipment pre-filled with hydrofluorocarbons, as well as the criteria for the allocation of quotas
- b. Awareness raising campaign for energy efficient equipment.
- c. Approval of legal framework on EE and RES.
- d. The Rehabilitation Program of the Dormitories of the University of Tirana according to the Principle of Energy Efficiency.

**2. Results indicators**

Indicator	Baseline	Intermediate target	Target
Number of licences issues for F-gas undertakings	0 (2020)	50% (2024)	100% (2025)
Action plan for F-gases quota allocation Phase Down (Quota allocation will be decided with the secretariat of Montreal Protocol)	N/A (2019)	Reduce HFC emissions by 30% compared to 2019 data (2030)	Reduce HFC emissions by 40% compared to 2019 data (2050)
% of electricity generated from PV solar plants and wind turbines	1.5%	10%	20%
% implementation of EE targets and policy measures	55%	65%	70%

**3. Expected impact on competitiveness**

The businesses affected are mainly the installation and service sectors of the industry. The recovery of fluorinated gases in this industry is already a standard practice, and therefore, the forecast for the recoveries is not expected to have any significant effect on competition in the examined markets.

Diversification of energy sources (renewables) have a direct positive impact in increasing competitiveness as well as increasing the domestic production of the energy in Albania's market. Auctions in wind and solar projects has increased further competitiveness between operators and have also attracted important FDI to the country.

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

The government together with the donor community will look at the possibilities of financing the activities, which at this stage result in financial gaps.

Investments in the field of renewable energy sources are ongoing through private initiatives and competitive processes. There is no direct impact on the state budget but investments in the distribution/transmission grid and power generation are defined in the development programmes of companies (KESH, OST and OSHEE). Investments in energy efficiency are ongoing with continuous support from the state budget and foreign financial aid. Although the state budget has increased the contribution in this area for the period 2022-2026, these investments remain modest. Referring to PBA 2024, several projects are foreseen in the "Energy Support" Program that will be managed by the Agency for Energy Efficiency.

**5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care**

**Direct impacts:** Approval of the by-laws will improve safety at work for employees of these businesses and premises where equipment containing fluorinated gases is stored. The quality of imported products is expected to improve, too. The law provides for the new requirements and standards that economic operators will need to follow, such as: labelling, training, certification, licensing.

**Indirect impacts:** Benefits for trained persons: Fulfilling the requirements to be trained, and operating in the market according to the standards will bring economic benefits, as certified operators/persons will have easier access to be employed in the European Union market, as they will harmonizes the system with that of the EU, ensuring the same standards as the European common market along with a higher protection for consumers through compliance with essential safety requirements.

Economic benefits as a result of market opening will generate increased employment.

This reform measure contributes to job employment and competitiveness and will ancillary the decrease the cost of energy for consumers by ensuring reliable energy supply at reasonable price levels and therefore stimulating the general business environment and making the sector more attractive to investors. It is a gender-neutral reform measure. Renewable sector will have direct social and economic impact by contributing to the improvement of employment opportunities in terms of project development, construction, installation, operations and maintenance, transportation and logistics, financial, legal, and consulting services.

#### 6. *Expected impact on the environment and climate change*

Environmentally, green economy will result in high positive environmental impacts such as lower carbon dioxide emission, increased biological diversity, ecosystem restoration.

The implementation of Law on F-gases will lead to the reduction of fluorinated gas emissions through containment and recovery measures, the establishment of conditions for specific application uses and the control of leakages during the use of fluorinated gases. The improvement of the standards will lead to fewer accidents with an impact on the environment, reducing the level of gases that damage the ozone layer. Increased security through the identification and control of operators in the market will affect a cleaner environment. The revised NDC envisages a 20.9% reduction in CO<sub>2</sub> emissions by 2030). According to the NDC, in 2030, fluorinated gases (HFCs) are predicted to represent about 16% of emissions from the industrial sector, therefore taking measures in this sector is important to prevent the increase of the GHG contribution of the industrial sector.

Regarding energy sector, NECP, is taking into account climate change adaptation, entering a new era of the international energy and climate policy process.

#### 7. *Potential risks*

<i>Risk</i>	<i>Probability (low, high)</i>	<i>Planned mitigating action</i>
Delay in drafting DCM and adoption	Low	Increase awareness on the importance of the law.
Delays in projects activities	Medium	Regular monitoring of the implementation of the activities.

### ***Reform measure 3.2: Innovative Structural Interventions and Technology Innovations for Renewable Energy in Irrigation and Drainage Pumping Stations***

#### 1. *Description of measure*

Innovative structural interventions in the agricultural sector are increasingly focusing on the incorporation of renewable energy technologies to enhance efficiency and sustainability. A prime example of this is the integration of solar panels into irrigation and drainage pumping systems. By harnessing solar power, these systems can significantly reduce the dependency on conventional electricity or diesel generators, leading to a decrease in greenhouse gas emissions and operating costs. This green technology not only ensures a reliable energy supply, particularly in remote areas where grid electricity may be inconsistent or unavailable, but also promotes the use of clean energy. Furthermore, the adoption of solar-powered pumps for irrigation and drainage aligns with global efforts to combat climate change by transitioning towards low-carbon technologies. After the installation of the solar panels and the end of the project, the solar energy harvested from solar panels will continue to be used in these irrigation and drainage pumps.

#### **a. Activities planned in 2024**

- a. The installation of SPV of 500 kW near the Divjaka pumping stations to decrease irrigation costs.

#### **b. Activities planned in 2025**

- a. Installation of 500 kW SPV on the Mursi downstream dam wall.
  - b. Design and installation of SCADA (Supervisory Control and Data Acquisition) system in the 2 modernized drainage pumping stations (Seman and Darzeza).
  - c. Installation of SPV in all the 27 drainage pumping stations.
- c. Activities planned in 2026**
- a. Installation of monitoring sensors in the remaining 25 drainage pumping stations to remotely measure water level, energy use from each pump, working hours, etc.

## 2. Results indicators

Indicator	Baseline (2023)	Intermediate target (2024)	Target (2026)
Total energy consumption of irrigation and drainage schemes covered by renewable energy (Percentage)	0	15%	25%
Area provided with improved irrigation or drainage services (ha)	0	6,500	12,300

## 3. Expected impact on competitiveness

The installation of solar panels into irrigation and drainage pumping systems stands as a transformative major step towards increasing the competitiveness of priority agri-food value chains. By transitioning to solar-powered solutions, agri-businesses can significantly lower their energy costs, a major component of operational expenses in agricultural production. This reduction in cost not only improves the profit margins but also leads to more competitive pricing of agri-food products. Additionally, the adoption of solar energy reflects an investment in sustainability, an increasingly valued attribute in the global market.

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

4,323,000 Euro financed by the International Bank for Reconstruction and Development (IBRD).

## 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

**Employment Generation:** The introduction of solar panels for irrigation and drainage systems has a cascading effect on employment. On the farm level, there is a need for skilled labor to install and maintain the solar panels and the updated pumping systems, creating jobs that require technical expertise. Off-farm, the manufacturing, distribution, and service industries related to solar technologies also experience growth, requiring more workforce. Moreover, as agricultural operations become more efficient and expand due to reliable water sources, there is a demand for additional labour in the downstream value chain, which includes processing, marketing, and sales of agricultural products.

**Increased Incomes:** The direct beneficiaries, primarily the farmers and landowners who will benefit from solar-powered systems, often see a substantial increase in their incomes. This is due to lower operational costs from reduced energy bills and less downtime due to power outages.

## 6. Expected impact on the environment and climate change

The installation of solar panels in irrigation and drainage pumps is expected to have a significant positive impact on the environment and in addressing climate change. Firstly, the adoption of solar-powered systems in agriculture will lead to a substantial decrease in net Greenhouse Gas (GHG) emissions. Traditional irrigation and farming practices often rely on fossil fuels, which are major contributors to GHG emissions. By shifting to solar energy, farms can drastically reduce their carbon footprint. This change is further enhanced by the incorporation of Climate-Smart Agriculture (CSA) and climate-resilient technologies, which optimize resource use and reduce environmental impacts.

Moreover, the use of solar panels in irrigation leads to improved agricultural water management. In the medium and long term, this translates to more efficient use of water resources, a critical factor in many regions facing water scarcity and climate-induced changes in water availability.

## 7. Potential risks

<i>Risk</i>	<i>Probability (low, high)</i>	<i>Planned mitigating action</i>
Macroeconomic risk	Low	Government is strongly committed to further development of the agriculture sector.
Environment and Social risks	Medium	It is anticipated that these risks will be largely mitigated and managed through adequate due diligence documents to be prepared prior to appraisal and by screening out associated high risk activities. The environment risks are associated with small to medium scale civil works, which are likely to have a number of predictable and readily mitigated environmental impacts that will most likely be moderate in nature. The social risks are associated with potential effects on human health and the environment, and temporary land-related impacts with unlikely impact on livelihood.

#### **SR #4: Digital transformation and infrastructure**

##### ***Reform measure 4.1: Development of the broadband infrastructure for the digital economy***

###### ***1. Description of measure***

The development of broadband infrastructure has become nowadays a precondition for social and economic development. Digital infrastructure and digitalisation is part of relevant regional strategic documents. The objectives for broadband development are in line with the EU Digital Agenda, part of priorities of SEE-2020 Strategy under smart growth pillar, also part of the MAP-REA of WB6. Furthermore, digital infrastructure, the development and rollout of national broadband infrastructure in the six Western Balkans is one of the flagships of the Economic and Investment Plan for the Western Balkans. The European Green Deal appreciates that “digital technologies are a critical enabler for attaining the sustainability goals of the Green Deal in many different sectors”. Furthermore, the New Growth Plan for Western Balkans adopted from the European Commission on 8<sup>th</sup> of November 2023, include measures to support the deployment of secure international connectivity and 5G network infrastructure through WBIF investment projects.

The development of digital economy and society is closely linked with building confidence through the development of secure and resilience of telecommunication networks at national level including 5G networks toward digital transformation. Digital connectivity is closely related with SDG goals, such as Goal 9 and in particular with target 9.c to significantly increase access to ICTs and strive to provide universal and affordable access to internet in least development countries. ICTs are also linked with SDG 17, target 17.8, SDG 5, target 5.b and SDG 4, target 4.b.

The main legal framework for telecommunication sector and broadband development aims to increase the investment, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as will increase the competition.

The Ministry of Infrastructure and Energy has initiated changes to the regulation of construction permits to facilitate the permit for electronic communication networks, in the decision of the Council of Ministers no. 408, dated 13.5.2015 "On the approval of the Territory Development Regulation", as amended. The new decision established easier regulation for building permits for small mobile network antennas as well as for the Internet network. This by-law aims to facilitate the process of granting permits for the deployment of the 5G network. Regulation of building permits for 5G networks is also part of the policy reforms included in the roadmap for reducing roaming prices between the EU and the Western Balkans.

WBIF project, WB23-ALB-DII-01, Development of broadband ATLAS, pre-feasibility study, started in February 2022 and is completed in December 2022. The goal of this project is to develop the broadband atlas including information of end users as well as provide the methodology for creating four types of maps:

- Broadband infrastructure design;

- Service mapping;
- Internet request mapping;
- Broadband Investment and Financing map.

The proposed reform measure is foreseen to increase the investments in the country, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as increase the competition. Additionally, there are several social and environmental benefits through:

- better broadband coverage, which means social and territorial cohesion,
- increases synergies across sectors, e.g. smart grids and intelligent transport systems
- improvement of the business environment through transparency and simple procedures for construction permits, etc.

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

The key elements for the implementation of the reform measure during the coming years are focused on the following directions:

- Improve legal and regulatory framework for digital infrastructure;
- Increase capacities for broadband/digital infrastructure developments;
- Promote investments/coverage with broadband networks.

Adaption of new electronic communication law based on European Electronic Communication Code and its implementation aiming to enhance and promote the deployment of very high-capacity networks.

The establishment of the Broadband Competent Office (BCO) will increase capacities in ministry in line with EU initiatives to help achieve the EU Gigabit society objectives. The Broadband Competent Office should be established to serve as a single point of contact in Albania at the national level.

Launching of pilot projects for development of broadband infrastructure in rural and remote areas as well as for better coverage through Wi-Fi or 5G for smart community will support Albania in the development of digital infrastructure and help digital transformation.

Establishment of synergies with utility projects: follow up recommendations of Balkan Digital Highway study. Encouraging synergy in utility projects such as energy, water, gas, transport, will also be an opportunity to reduce costs for Broadband infrastructure development.

#### **a. Activities planned in 2024**

- Drafting of by-laws for the implementation of the new law on electronic communications;
- Establishment of Broadband Competent Office (MIE);
- Development of 5G networks (2024-2026) (MIE/ AKEP);
- WiFi4AL;
- Participation in EU Digital Programme.

#### **b. Activities planned in 2025**

- Investments in white areas (MIE);
- Establishment of Broadband Competent Office (MIE);
- Development of 5G networks (2024-2026) (MIE/ AKEP);
- Communication Plan/Promotion for the implementation of the new law on electronic communications;
- Piloting Broadband Development with fibre optic;
- WiFi4AL;
- Development / Improvement of broadband ATLAS;

#### **c. Activities planned in 2026**

- Investments in white areas (MIE);
- Development of 5G networks (2024-2026) (MIE/ AKEP);
- Piloting Broadband Development with fibre optic;
- WiFi4AL.

## **2. Results indicators**

Indicator	Baseline (2020)	Intermediate target (2025)	Target (2030)
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Increase percentage of areas covered by fixed broadband, including rural areas	58%	70%	90%
Average internet bandwidth in public schools and health facilities	6-12 Mbps	30 Mbps	100 Mbps
Increase broadband connection for SME	79,8%	90%	95%

### 3. Expected impact on competitiveness

The proposed reform measure is expected to increase investment in the country, improve broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as increase the competition. The development of rural and remote areas through usage of ICT for businesses and farmers, and the resultant access to knowledge and state of the art technological methods as part of this reform are expected to improve competitiveness in these areas.

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

In MTBP 2024-2026 for the "Support for Communication Networks" budget program, are currently approved foreign funds and are expected to be approved the funds requested from the state budget (exchange rate 1 EUR=119 lek):

#### 2024

- 100.000.000 lek (EUR 840.336) State Budget
- 20.000.000 lek (EUR 168.067) Foreign Funds

#### 2025

- 100.000.000 lek (EUR 840.336) State Budget
- 20.000.000 lek (EUR 168.067) Foreign Funds

#### 2026

- 100.000.000 lek (EUR 840.336) State Budget
- 20.000.000 lek (EUR 168.067) Foreign Funds

### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Development of broadband is expected to increase the number of employments and to create more possibilities for online working for gender. The broadband investments will improve the overall productivity as the relative effects on GVA exceed the effects on employment. By adding new economic benefits and job vacancies, broadband investments not only induce economic benefits, but also promote greater political stability, higher quality of public services. The reform creates the possibilities to address gender issue in ICT through increase possibilities for women, as online workers from home in remote/rural areas.

### 6. Expected impact on the environment and climate change

The reform measure is expected to have an impact on the environment. Through the sharing of infrastructure and the coordination of civil work in the deployment of broadband infrastructure, going digital, air pollution and the impact on the environment are reduced. Digital technologies such as artificial intelligence, 5G, cloud and edge computing and the Internet of Things can accelerate and maximize the impact of policies to deal with climate change and protect the environment. Digitalization also presents new opportunities for remote monitoring of air and water pollution, or for monitoring and optimizing the use of energy and natural resources.

### 7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
The digital infrastructure and other infrastructures such as transport and energy project need to be coordinated in order to benefit	Low	Monitoring, reporting and continued close cooperation between stakeholders

from synergies and joint investments		
Lack of funds to implement the measure	Medium	Looking for alternative sources of financing or adjusting the scope of the measure to available financing

***Reform measure 4.2: Improving access to e-services, enhancing digital skills of users, and strengthening GovTech***

***1. Description of measure***

**1: Improving access to electronic services and user experience**

The focus will be on reorganizing the e-Albania portal according to the "life events" model through an innovative approach to the organization of public services, using the concept of "life events". This will bring a noticeable change to the e-Albania portal, also presenting proactive electronic services that will help improve the quality, speed, and efficiency of providing public services.

Moreover, work will be done to re-engineer the e-Albania portal by redesigning the portal and the mobile application with a "mobile by default" approach. In a time when more and more users are using smartphones to access the portal, it's important that the design and functionality adapt to offer the best user experience. Additionally, investments will be made to ensure that even people with disabilities can easily use the platform, integrating international accessibility standards.

Regarding services, the electronic services will be upgraded using a microservices-based architecture and the Governmental Interoperability Platform will be upgraded in both software and hardware aspects. This will allow services to be developed quickly and continuously, ensuring a sustainable experience for users. This will be accompanied by a continuous service improvement mechanism, ensuring that any necessary improvements are made swiftly and without service interruption.

**2: Enhancing skills and overall digital inclusion**

The emphasis will be on increasing citizens' digital skills by creating ICT laboratories known as "smart labs". These laboratories will offer a supportive environment for teaching and learning to help students improve their knowledge in the field of technology.

Additionally, there will be an integrated channel for citizen assistance, including an advanced virtual assistant similar to Apple's iOS "Siri," which will use artificial intelligence to provide immediate help for electronic services. In cases where virtual assistance is not sufficient, there will be the option to connect with the Citizen Assistance sector to be aided by an employee.

**3: Strengthening the primary enablers of GovTech**

The proposed investments and improvements will bring many benefits to the users of the e-Albania platform, including ease of use, improved service quality, and better interaction with new technologies. This will also contribute to further improving the infrastructure and digital services of the government.

**a. Activities planned in 2024**

- a. Eligible e-services on e-Albania regrouped in life events at Level 2 (NAIS)
- b. 200 SmartLabs made fully functional by the AKSHI (NAIS)

**b. Activities planned in 2025**

- a. E-Albania online is in live phase with three priority functionalities and compliant with eligible accessibility standards (NAIS)
- b. 5 institutions publish datasets in accordance with Open Data (OD) standards (NAIS, Open Data)
- c. Equipment of 5,500 secondary school teachers with laptops to ensure full use of the SMIP System (Pre-University Information Management System). (NAIS)

**c. Activities planned in 2026**

- a. 60% of highly used services apply 8 Digital Service Standards (NAIS)

***2. Results indicators***

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Number of life events-based service groups implemented on E-Albania. (Text)	No life-events on e-Albania.	As-is-to-be assessment and re-design plan completed for: (i) all eligible services to be implemented at Level 2, including a climate	All eligible e-services on e-Albania interface regrouped to LEs at Level 2.
Strengthened interoperability (Text)	Albanian interoperability framework (2014) not updated (2022)	Albanian interoperability framework (2014) revised to align with EIF 2.0. (2024)	
Increase in Open Data availability and usage (Text)	20 institutions and 8 ministries publish OD but not according to OD good practice. (2022)	Open Data Readiness Assessment (ODRA) completed. 5 institutions publish datasets on OD Portal in accordance with OD standards and OD Portal iteratively adjusted based on UX. (2025)	Continuous enrichment of open data portal with more open data (2026)

### 3. Expected impact on competitiveness

The proposed investments and improvements will bring many benefits to the users of the e-Albania platform, including ease of use, improved service quality, and better interaction with new technologies. This will also contribute to further improving the infrastructure and digital services of the government, to recapture citizen trust and foster innovation, competitiveness, and growth.

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

All the planned projects will be financed through a foreign loan from the International Bank for Reconstruction and Development.

- Eligible e-services on e-Albania regrouped in life events at Level 2 (EUR 1.8 million)
- E-Albania online is in live phase with three priority functionalities and compliant with eligible accessibility standards (EUR 2.3 million)
- 200 SmartLabs made fully functional by the AKSHI (EUR 1.8 million)
- 60% of highly used services apply 8 Digital Service Standards (EUR 1.8 million)
- 5 institutions publish datasets in accordance with Open Data (OD) standards (EUR 3.7 million).

### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Improving the quality of citizens' lives as the services provided by public administration will be available online, saving time by reducing wait times for document processing. This will also decrease corruption as there will be no direct contact with civil servants.

### 6. Expected impact on the environment and climate change

The impacts of implementing these projects on the environment will be positive. We can cite paperless administration and supporting climate change mitigation through investment in cost-effective energy saving technologies, in accordance with international standards.

### 7. Potential risks



Risk	Probability (low, high)	Planned mitigating action
Technical Design of Project or Program	Medium	-Building strong implementation arrangements -Providing technical support through Investment Project Financing component

### ***Reform measure 4.3: Rehabilitation of the Albanian railway network and interconnectivity for a sustainable transport***

#### ***1. Description of measure***

The measure is rolled over from previous ERPs, intended to upgrade and extend the Durrës – Rinas Airport-Tirana railway line. The procurement procedures for the project for the Rehabilitation of railway Durrësi – Tirana and construction of the new railway branch to Mother Teresa (Rinasi) International Airport (total cost is 90.45 million euro) were completed in 2020 and the contract was signed with the Italian Company INC S.P.A. on 3 February 2021. The project which is foreseen to be completed in 30 months from its starting of civil works, on 1.10.2021. The deadline for completion is April 2024, and completed up to 57% of civil works. The establishment of the Asset management plan System (AMP) of the administration of assets/assets, according to the responsibility of the Sha corporations, aims at transparency, in the fulfilment of the measure. The creation of the cost centre according to the Railway Code law, is accompanied by risk mitigation. Updating the risk matrices and (re)creating/updating audit trails are actions aimed at fulfilling this specific objective and tasks. The re-creation of the link is carried out with the declarations of the administrators of those infrastructures, as are the other administrators with the main Administrator and the appendices (Article 28) for the Main IM of Network statement (announcement through Chapter VI – Charging fees). The approval of the charging scheme is expected from the competent authority and the announcement in the network declaration (2024) of the main infrastructure manager in the country.

Drafting of the public service contract and the drafting of the multi-year contract with the economic interest of the infrastructure manager with the state ensures that this measure is accomplished, and with the approval of the New M & R maintenance plan according to TAC/AMP, the new scheme of access charging, in the operation phase after construction of this project is finalised and tested successfully, according to the applicable legislation.

#### **a. Activities planned in 2024**

- a. Continuation and finalization of rehabilitation works on the main section from Vora-Sukthi-Shkozet (Durres) and section 2 Vora- Tirana PTT.
- b. Construction activities in Defects Liability Period, (HSH). Rail link to Rinas airport up to 5 km to be completed (triangular railway intersection).
- c. Publication of the tender procurement for goods, works and consultancy services to be proceeded, following announcement of the general procurement for Vore-Hani I Hotit project (in cooperation with the MIE promoter to update of the ESIA plan under the modifications done, with the main IFIs)

#### **b. Activities planned in 2025**

- a. Submitting and screening the procedure to the interconnectivity in the transport, energy and digital network R2, in the strategic priority project, Vora to Hani Hoti, under the EIP.
- b. Completion of the steps to procurement of works, goods, and services in the Vora-Hani I Hotit.
- c. Indicative extension to a new boulevard of Tirana and construction of missing link to PTT

#### **c. Activities planned in 2026**

- a. Complaints handling mechanism related Vora-Hani Hotit project in compliance to the donors.
- b. The winners' procedure of Vore-Hani I Hotit project in cooperation with the donors EBRD and EIB, which has already promoted the update of the ESIA plan, under the modifications done.
- c. Starting the civil works and ToRs of technical assistances for the project implementation Plan

#### ***2. Results indicators***

Indicator	Baseline (2016)	Intermediate target (2025)	Target (2047)
Million passengers/year	0.75881	1.1741	1.25
Tons/year	198,900	51,100	250,000
Reduction of CO <sup>2</sup> emissions (ton/year)	0	486	486
Car-km removed from road per year	0	8,700,000	8,700,000
Truck-km removed from road/ year	0	138,000	138,000
Railway Network Density (Metres of line per km <sup>2</sup> of land area)	7.79w <sup>13</sup>	11.62w <sup>14</sup>	49.0 <sup>15</sup>
Gender Equity at competition / staff total	110	150	300

### 3. Expected impact on competitiveness

On additions and changes for the co-financing of electrification for the network, aimed to achieve, through the operational program within IPA III and through the programming of the medium-term budget, approved by the Albanian government, the railway reform brings stability to the economic criteria on the expected increased impacts for the competitiveness, in a fair, non-discriminatory basis, and announced in the ERP.

The modernization of the new vehicle maintenance company, as a condition of the vehicle registry, must be ensured, in order to avoid inflated vehicle repair bills abroad due to the RIV/AVV/GCU regime prerequisite of equipment with a European number and vehicle authorization, brings about several operators.

Finally, the establishment of quality management systems (QMS) and the supervision of railway safety management systems (SMS), for licensed transport operators (railway undertakings), according to the law, consist the actions that are performed or should be performed for the fulfilment of this specific objective, as a subject of control of the new framework (railway regulatory authority), which takes decisions, imposes administrative penalties and fines, and simultaneously announces and makes decision and publishes them.

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

The project has received the full electrification funds of 20.5 million euros and its supervision, and added up to the project of the existing cost of EUR 90.45 m euros. The contract includes works for the rehabilitation of the Tirana-Durres railway line and construction of the new rail link, as well as consultancy services for the supervision of works, for which the tendering processes are ongoing too. A sovereign loan of up to EUR 36.87 million for civil works (incl. contingencies) and in additions for the strengthening of institutional capacity through an EBRD grant of EUR 0.87 m. A grant from WBIF-EU of EUR 35.435 m comprising of 32.935 m EUR for civil works and 1.5 m EUR for supervision and 1 m EUR for ESIA implementation and project management and the tendering documentation amounting to 1,215 m EUR totalling 36.65 m EUR is already given for this important project. In addition, Land expropriation (1 m EUR) and VAT (15.06 m EUR) is part of the state budget (over EUR 16.06 m). The number of facilities from the project are over 150 houses and other warehouses in the technical Domestic Triangular Railroad Junction, as amended in the MTBP 2024 and increasing value from 1 to 3 m Euros with the Land acquisition plan update (LAP, 2021). Initial evaluation methodology (LAP, 2019) was revisited and approved from the official proposal of the National Agency for Spatial Planning (AKTP), from the Minister (MIE). The MTBP budget includes investments for the ports of Durrës and Vlora and the Airports of Vlora and Saranda. The new railway lines Tirana-Durrës and Tirana-Rinas were already budgeted (1.7 billion ALL). The Normative Act (NA) shall follow, based on the legal power on the annual budget for the next fiscal year starting from 2024-2026.

### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

<sup>13</sup> In 2020 or the last recent year 2023 (basic annual)

<sup>14</sup> At minimum, as before pandemic (Y2018 to Y2019)

<sup>15</sup> The EU level estimated before pandemic covid-19

Scientific cooperation is aiming at reducing gender inequality, increasing training and employment for youth, with technical assistance, and academia to implement the best international practices in terms of:

- i) Project management and control
- ii) Management ongoing contracts
- iii) Management of ITS (ERTMS)
- iv) The Safety management systems
- v) Financial management, in accordance with recommendations of the international donors
- vi) Technical and analytical support for medium-term budget planning

Promoting/extending the use of AFMIS to all new host societies within the allocation

Technical Assistance for International Financial Reporting Standards (IFRS) Reporting.

#### 6. *Expected impact on the environment and climate change*

Adaptation and mitigation measure on the increasing the expected impacts, related in the SDGs on climate change, and infrastructure costs, on passenger Hubs or terminals, the transport of dangerous goods, with the incentives for noise-off wagons from administration in the railway infrastructure, the change of leasing rates for assets railways, warehouses, and others, and add marketing and digitalisation of railway services e-FTI.

TAIEX on fire protection in the transport of dangerous goods/TAIEX ETT IND/STUD 84111 - TAIEX study visit on building fire prevention capacities in case of accidents during the transport of dangerous goods EU TAIEX MOI, DPMZSH, MIE, HSH. The workshop activities, with the mission of the study visit has been completed so far. A mission of experts in Albania, training and a field exercise in HSH 1 km away are realised. Improving resilience and climate adaptation measures in the indicative extent of the TEN-T road and rail networks in the Western Balkans/Vulnerability Assessment of Technical Assistance for Improving Climate Resilience and adaptation measures in the indicative extent of the road networks and TEN-T railway in the Western Balkans is ongoing with the workshop and the first report, submitted to the MIE and HSH, ARA, MoI and the STII. The expected impacts are effecting the project area for the rehabilitation of Durres-PTT.

#### 7. *Potential risks*

Risk	Probability (Low/High)	Planned mitigating action
Pending expropriations, at difficulties associated to phases after construction and starting rail operation related Energy consumption	Low	<p>Programming additional effects for expropriations with MTBP funds, for the ERP and economic and financial development (HSH) program / the project.</p> <p>The problems encountered in this project are mainly related to the expropriation process which is in the process of being finalized by Albanian Agency for expropriations (ASHSH). Finalization of this process is the Decision of the Albanian Government (DCM) on the expropriation, is expected to be carried out and adopted within September and the beginning of construction works goes on in segment 4, the new railway line to be constructed Domje to Rinas.</p> <p>Additions and changes for the co-financing of electrification for the network, IPA III and MTBP and following actions:</p> <ol style="list-style-type: none"> <li>1. Drafting/signing of the public service contract;</li> <li>2. Drafting of the multi-annual contract with economic interest of IM with the state (MIAC); and</li> <li>3. Approval of the M &amp; R maintenance plan according to TAC/AMP at the IFIs and implementing</li> </ol>
Delays in the separation for the IM, from the operations, Non-review state aid rules	Low	<p>As for railways, the Albanian government has approved the sectoral reform, through Law 142/2016 Railway Code on the main functions and separation of accounts, with the independence of the infrastructure administrator, from the operations in it, through their continuous monitoring from the GoA and IFIs. In the railway code and the law of division of the railway company, Law 90/2021, the establishing of 4 (four) host companies and the creation of the activity audit</p>

		committee, social plan, management of railway projects and risk adaptation and mitigation are expected. State aid boost salaries and rewards, scientific titles, etc.; Bonuses for the performance of new companies; new scheme for inventiveness to railway operators, which have made investments with EN standards and green rolling stock, be given by the IM, as in the code.
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### III. Competitiveness

#### *Analysis of main obstacles*

#### **Research, development, and innovation**

The Albanian Government has made notable improvements in building the infrastructure to support MSMEs and Start-up companies during the last few years, Legal framework allows a number of state agencies including the up-and-coming establishment of Start-up Albania agency to support start-up and innovation ecosystem growth and facilitate growth of start-up and entrepreneurship.

The challenge with support services remains in their sustainability and professionalism of the private organisations that offer them. Additionally, for start-up support companies' measures offer horizontal support and focused on ideation stage. Companies at later stages, validation and growth, are not supported adequately and are missing vertical industry knowhow. More importantly, support organisations lack the necessary international network to provide companies at more mature stages, thus creating a gap in development as well lack of critical support from international mentors and financing structures.

Over the forthcoming triennial period, a financial allocation of 9.66 million euros from the state budget has been designated to support research and innovation initiatives. This significant funding underscores the commitment to fostering advancements in knowledge and technological progress.

More efforts and increased co-operation with the ICT industry are needed to close the talent gap and increase the number of young graduates with entrepreneurial skills and see the entrepreneurship as career choice.

More support should be placed in professional development of incubators and dedicated advisory services for early-stage companies, technology adoption and knowledge transfer from university labs to market validation and regional development that is aimed at specific and promising industries.

#### **Business environment, and reduction of the informal economy**

#### ***Business environment***

As presented in the OECD SME policy index 2022, Albania faces some of the weaknesses in the area of competitiveness. This include the development of the insolvency prevention policy measures, including a fully-fledged early warning system, as SMEs tend to underestimate the importance of maintaining a sound financial status and avoiding risky decisions. Also, the assessment recommends that it should be ensured the effective realisation and monitoring of green measures of all involved institutions, through a dedicated co-ordination government body, to encourage SMEs' greening transition. A key area of improvement is the increase of financial support schemes for SMEs, revive financial support provided by AIDA to further facilitate access to finance for those enterprises needing support the most. Albania must create a conducive business environment for SME digitalisation and e-commerce adoption.

Based on the Key findings of the 2023 EC Report on Albania, on the economic criteria, Albania has between a moderately and good level of preparation on developing a functioning market economy and made some progress in addressing last year's recommendations. Albania is at level of preparation to cope with competitive pressure and market forces within the EU and made some progress on structural reforms in the energy market, transport infrastructure, the digitalisation of the economy and education outcomes, though significant gaps with regional and European levels remain.

Albania has achieved a moderate level of preparation in many areas linked to competitiveness and inclusive growth, namely taxation, enterprise and industrial policy, social policy and employment, education and culture and the customs union. The same holds true for the digital transformation and media, where the country made good progress, including by joining the Digital Europe programme in June 2023.

A new "council of enterprises", composed of public and private sector representatives, has been set up to improve consultation of SMEs.

Referring the business environment, as some of the Commission's 2022 recommendations for Albania were not fully implemented, last year's recommendation remain partially valid and in the coming year Albania should in particular accelerate the diversification of renewable energy sources, develop business support services for SMEs' green transition, digitalisation and e-commerce, and support cooperation between business and academia on innovation.

Albania is moderately prepared in the area of enterprise and industrial policy. Some progress was made on the implementation of the recent legislation on micro, small and medium enterprises, on start-ups, and on the continuation of the business support programmes in line with the business and investment development strategy. Despite these improvements, and the government's ongoing efforts to tackle the informal economy and corruption, the recommendations in the 2022 report were only partly addressed. In the coming year, Albania should, in particular: further address the main challenges to the business environment by reducing the regulatory burden, increasing the participation of businesses in the funding programmes, reducing the informal economy and corruption, and increasing business support services; accelerate the full alignment of national legislation with the EU acquis on late payments; adopt the unified investment Law and address the challenges to competitiveness and growth that were highlighted in the joint recommendations of the economic reform programmes of 2023-2025.

### ***Reduction of the informal economy***

Informality is one of the main obstacles for the sustainable development of formal businesses and therefore for the country's economy in general. Important factors affecting the business environment are related to the frequent changes in legislation, often incomprehensible for mostly small businesses, and the increasing trends in interest rates that make lending more expensive. Meanwhile, other factors that affect an unfavourable climate for business are: general uncertainty as a result of the increase in prices, the increase in the cost of purchasing raw materials (production sectors) and the increase in the prices of traded products (sectors trade). Informal competition penalizes businesses that do not depend on these resources. The improvement in the business climate also has an impact on the promotion of foreign direct investment. The process of fiscalization as a major reform undertaken by the tax administration has enabled the declaration and real-time tracking of sales and purchase transactions carried out by the population of taxpayers. This process has helped to reduce informality and increase the correct declaration by the entities that make real financial declarations of their economic activity, but it still remains a challenge, as some businesses will continue with informal invoicing and under-declaration, staying again as part of the "grey economy". The income from VAT for the period January - July 2023, compared to the same period of 2022, has increased by 20% thanks to good fiscal administration and the fiscalization process.

### **Economic Integration**

During the year 2022, the trade of goods (exports /imports) increased, compared with the previous year. In 2022, compared with the previous year, exports of goods increased by 35.9 % and imports of goods by 22.2 %. In 2022, the percentage of covering is increased to 51.2 %, from 46.1 % that was in 2021. During January-September 2023, compare with the previous year, exports of goods decreased by 1.1 % and imports of goods increased by 1.6 %. The percentage of covering decreased to 51.3 %, from 52.7 % that was in the same period of 2022.

Trade of Goods with EU: Trade exchange with EU countries increased in 2022, compared with the previous year. In 2022 the exports of goods were 73.4 % of the total exports, increasing by 38.0 % and imports of goods were 51.6 % of the total imports, increasing by 16.0 %, compared with previous year. The main traders of EU countries for export were Italy and Germany and for import were Italy and Greece. In 2022 the exports to Italy and Germany were 58.9 % and 8.9 % of total export to EU; while imports from Italy and Greece were respectively 42.0 % and 15.2 % of total imports from EU. The exports to Italy in 2022, compared with the previous year, increased by 39.1 % and imports by 9.0 %; while exports to Germany in 2022, compared with 2021, increased by 63.3 % and imports from Greece increased by 19.8 %.

During January – September 2023, the trade exchange with EU countries decreased, compared with the previous year. In the first quarter 2022 the exports of goods were 72.9 % of the total exports, decreasing by 2.1 % and imports of goods was 51.1 % of the total imports, decreasing by 0.3 %, compared with previous year. The main traders of EU countries for export were Italy and Greece and for import were Italy and Germany. In January – September 2023 the exports to Italy and Greece were 59.5 % and 9.4 % of total export to EU; while imports from Italy and Germany were respectively 43.6 % and 13.7 % of total imports from EU.

The exports to Italy in January – September 2023, compared with the previous year, decreased by 2.2 % and imports increased by 4.3 %; while exports to Greece in January – September 2023, compared with the same period of 2022, increased by 27.0 % and imports from Germany increased by 12.8 %.

Trade of goods with CEFTA Countries: Trade of goods with CEFTA countries in 2022 increased by 17.3 % compare with the previous year reaching the value of 1,295 mln €. Exports to CEFTA countries in 2022, compared with the previous year, increased 22.0 % reaching at 16.8 % of total exports. Imports to CEFTA countries increased 12.4 % reaching 7.6 % of total imports. The main traders of CEFTA countries were Kosovo with 35.3 % and Serbia with 29.7 % of total trade volume. During January - September 2023, trade of goods with CEFTA countries decreased by 1.4 % compare with the previous year reaching the value of 938 mln €. Exports to CEFTA countries in January - September 2023, compared with the same period of previous year, increased 14.3 % reaching at 18.6 % of total exports and imports decreased 18.2 % reaching 6.4 % of total imports. The main traders of CEFTA countries were Kosovo with 38.4 % and Serbia with 25.5 % of total trade volume.

Overall, in order to increase the trade flow, the main focus regarding economic integration is to gradually eliminate non - tariff barriers which hamper the trade among trade partners and pose obstacles for the business and facilitate trade and procedures related to trade.

EU4Business Support to CEFTA for monitoring and reporting of non-tariff measures and support for the implementation of the Dispute Settlement Mechanism under CEFTA” has been launched in Albania, in July 2023. UNCH will offer technical assistance for: Additional Protocol 7 of CEFTA to establish a dispute resolution mechanism; Market Access Database (MADB) within CEFTA; Awareness of private sector focused on improving the private-public dialogue through the development of a strategy for the monitoring and reporting mechanism of non-tariff measures by the private sector; Transparency: Non-Tariff Measures (NTM) data collection. Of interest from Albanian side is the establishment of a single source for domestic legislation related to non-tariff measures, in the form of an online platform. Based on what was discussed and the needs of Albania, a proposal for a project could be the identification of legislation on sanitary and phytosanitary measures - SPS and technical barriers to trade - TBT, collected in a single source of information. The project will contain three steps/phases: a) Identification of legislation and regulations in force, according to the UN Classification; b) Codification of non-tariff measures; and c) To link the legislation/regulations with the product to which it applies/affects. The product will be identified based on the 6-digit level of the HS Code.

As regards the WTO Trade Facilitation Agreement the focus is now on the implementation of two important measures: Pre-arrival processing and single window NSW.

The operation of the pre-arrival declaration requires developments in the customs IT system. In the work plan related to IT developments for the period 2022-2023, customs administration has included the development of the customs IT system to put the pre-arrival declaration into operation. According to customs administration, this project, in order to be implemented, requires the development of the customs information system. The Customs Administration is closely cooperation with National Agency for Information Society with the support of UNCTA to develop relevant module of software that enables reception, processing and selection of risk for security and protection purposes, based on the selection criteria.

National Single Window: Albania has continued to work on establishment of National Single Window.

In February 2023, it has been organised the first meeting of the public consultation process with Interest Groups represented by business associations operating in our country where was introduce the NSW technical System (a model of the functional structure) and the draft-legal changes (preliminary legal proposals) that are prepared and propose from PIU to Albanian Customs and all other Institution that are part/beneficiary of the new system NSW. These legal improvements are necessary due to the new legal directive approved by European Union. The winning company has been selected for the Activity WBTTF-ALB-111AB-112AB – System Design, Technical Specifications, Supervision and Quality Assurance of the National Single Window. Estimated deadlines for the installation and full operation of the NSW System are foreseen 2 years from the signing of the Contract with the Winning Company which will carry out the implementation, i.e. *approximately December 2025* or beyond, according to the tendering deadlines.

Joint border crossing point in Qafë Thanë/Kafasan (one-stop-shop) following the entry into force of the agreement between Albania and North Macedonia for establishing joint border crossing points Qafë-Thane-Kjafasan in 2021, the protocol for the cooperation between customs administrations was signed in November 2022. Also, in November 2022, a contract was signed with the Company which will carry out the design of BCP Qafë Thane as well as the supervision of the investment. The work has begun, it has been functional

Albania's Economic Reform Programme 2024-2026  
since 31 July 2023.

Completion of the works is foreseen for 2025, customs administrations have agreed as an intermediate solution to draft the "Implementing Protocol for creating infrastructural conditions on establishing joint controls as a short-term adjustment (interim solution)".

Albania continues to be active at the implementation of the Action Plan on establishment of the Common Regional Market 2021-2024. For the next year, Albania will have the Chairman of CEFTA Subcommittee on Agriculture and SPS and will play an active role to push ahead the measures related at agriculture and SPS under CRM.

All these measures aim at reducing barriers in trade among CEFTA parties, pose great opportunities for our business to extend their market in the region as well as to increase our preparation (both business and administrations) for fulfilling with EU standards. Worth to be emphasised is that some important measures are pending to finalization due to political issue.

Kosovo, remains an important trade partner for Albania. During 2022, based on a memorandum of cooperation on the establishment of a joint working group for assessing the possibility of a customs union between Albania and Kosovo, the respective joint working group was established in July 2023. The Joint Working Group conducted a study on this issue that was submitted at the Office of Prime Minister of Kosovo and Albania in January 2023. During 2023, there has been no new development related at this measure.

Also, as previously reported on Open Balkan measures, during 2023 there are no new developments.

During 2023, the National Committee of Trade Facilitation (NTFC) has hold two meetings, where there are discussed different trade issues, such as the implementation of SAA, proposals from potential new FTAs, WTO issues, and so on. The agenda of NTFC, held in July 2023, included the report by the Secretariat on the monitoring of the National Plan for the coordination and facilitation of the Trade Policy 2021 – 2023. According to the Monitoring Report. Out of 22 measures that the Plan contained, 16 of them have been implemented, while 8 measures and sub-measures are in process and one measure is unrealised. The work for the preparation of the Action Plan 2024 – 2027 will begin.

Among the measures that have been implemented, it is worth mentioning the approval of the Albanian program for Authorised Economic Operators. Regarding AEO-s the Albanian AEO program has been validated positive by CEFTA team in June 2022. There has been progress with the implementation of Albanian programme of Authorised Economic Operators (OEA). Until October 2023, there are 11 AEO authorisations issued by customs administration. Besides these positive developments, the mutual recognition of AEO programmes is not yet done between CEFTA parties due to the political issue in approval of the CEFTA Decision on recognition of validated AEO programs.

Albania has ratified the Regional Convention on Pan-Euro-Mediterranean Preferential Rules of Origin (PEM Convention) with Law No. 1/2012, becoming a party to this Convention. Over the years, Albania has revised the SAA rules of origin protocols, the FTA with Turkey, the FTA with the EFTA countries and the FTA with the CEFTA countries, linking them to the regional Convention on the rules of origin. Albania applies the transitory rules of origin through the amendments of SAA, CEFTA and EFTA free trade agreements. CEFTA Decision on transitional rules of origin has entered into force and is under implementation since February 1, 2023. The revised PEM rules of origin were agreed at a technical level by all the Contracting Parties participating in the meeting on June 14<sup>th</sup>, 2023, where Albania was represented by the General Directorate of Customs. Actually, Amendments to the Convention will enter into force on January 1, 2025, allowing time for the Contracting Parties to complete internal procedures for approval and entry into force. To this reason, Albania will follow with the domestic procedures for its ratification, and do all the procedures to amend the free trade agreements.

## **Agriculture, industry, and services**

### ***Agriculture***

Agriculture in Albania plays a significant role in the economy, contributing approximately 20% to the nation's Gross Domestic Product (GDP), and it also employs roughly 35% of the country's workforce.

Agriculture plays a critical role also in the green transition, accounting 731 hectares of organic cultivated area and 2091 tons of total production for 2022.

In conclusion, while the green transition in agriculture is essential for a sustainable future, it's a complex process faced with multifaceted challenges. Addressing these obstacles requires a coordinated effort from policymakers, industry stakeholders, researchers, and the farming community. The main obstacles in agriculture concerning the green transition are:

### 1. Infrastructure Limitations

**Energy Access:** In many rural areas, there's a lack of access to reliable energy sources, making it challenging to adopt renewable energy solutions.

**Storage and Distribution:** Inefficient storage and distribution systems can lead to significant post-harvest losses, undermining efforts to make agriculture more sustainable.

### 2. Social and Demographic Challenges

**Aging Farmer Population:** In many regions, the farming population is aging, and younger generations are moving to urban areas. An aging population might be less inclined to adopt new technologies or practices.

**Land Ownership Issues:** In some areas, unclear land ownership or land rights can be a barrier to long-term investments in sustainable agriculture.

### 3. Globalization and Trade

**Global Market Dynamics:** The global nature of agricultural trade can sometimes prioritize large-scale, intensive farming practices over smaller-scale sustainable ones.

**Competing Interests:** There might be trade-offs between producing cash crops for global markets and sustainable farming that prioritizes local food security and environmental health.

## *Industry*

There are several obstacles affecting the performance and development of the non-food industry in Albania. First and foremost, it lacks a strategy which determines the priorities, objectives and policies that enable its harmonious and sustainable development. Delays in privatization procedures of former industrial facilities, which are in ruins and no longer pose any interest for the state. There are financial constraints to preserve assets in some of the former industrial facilities. There is lack of legal framework for the supervision of some of the sectors. There is a lack of a database for the entire non-food industry, for potential polluters as in the type of activity, but also the respective quantities discharged in a quarterly, annual period, in order to have a more realistic picture of air, water and land pollution. The absence of the Inspectorate for market surveillance for non-food products, which should guarantee the citizens that the products offered on the market are safe, directly affects the loss of public trust in law enforcement, and has negative consequences not only on the quality of consumers' lives, but also in the creation of an unfavourable climate for the development of fair competition, the increase of foreign investments and the development of the economy as a whole.

## *Services*

### *Tourism*

After the post-pandemic period where the year 2021 marked a turning point, the increase in tourist flows during 2022 has been a trend experienced by every destination, including neighbours such as Greece, Montenegro, Croatia, a tendency that has also been confirmed in Albania.

The year 2022 has been a successful year for the tourism sector, surpassing the year 2019, considered the best year in the history of tourism in the country. According to the data published by the Albanian Statistics Institute (INSTAT), 3,895,150 tourists from the region visited Albania while the number of tourists outside the region was 3,648,667. In total, the number of foreign nationals who entered Albania in 2022 is 7,543,817 increasing with +32.6 % compared to 5,688,649 foreign tourists in the year 2021.

According to the World Travel and Tourism Council, during 2022, the tourism sector recorded a total contribution of USD 3.9 billion, accounting for about 21.6% of GDP. Comparing it with the previous year there is a change of +26.2% from 2021. In terms of employment, the total contribution of travel and tourism for 2022 was 246,700 jobs or 21.2% of total employment in Albania with a +9.1% change compared to 2021 data. Also, the figures for visitor spending for 2022 registered at USD 3.1 billion for international tourists and USD 0.78 billion for domestic ones with an increase of +26.1% and +30.5% respectively compared to 2021. In the conditions when Albanian tourism is recognizing positive trends in the direction of extending the season, expanding the tourist map and developing agro-tourism, nature tourism, culture tourism as sustainable development model, the diversification of the tourist offer in order to further consolidate it through the use and optimization of untapped tourism potentials such as maritime tourism is seen as one of the long-term measures to support the development of the tourism sector.

Albania's maritime activities are rather limited, focused mainly on fisheries. Albania lacks the basic infrastructure, people and facilities to service even a modest number of pleasure boats, less of all a sustainable marina industry. The country's rules and procedures, many unchanged from the communist era, stand out for



their complexity and intractability, making the country the least welcoming destination in the northern Mediterranean Sea.

Nautical tourism, as has been proved in other countries of the region such as Croatia, Montenegro, Greece and Italy, is a major industry and Albania is missing from this valuable Mediterranean corridor due to its scarce marina economy. The favourable geographical position of Albania, linking the Adriatic and Ionian Seas and the Central Mediterranean Sea, makes it an important country for the development of maritime activities.

In this sense, “drafting the regulatory and institutional framework for the development of services and the way of operation of Tourist Ports and activities in their function”, as well as the “Development of the Coastal and Maritime Tourism Program and the creation of new products” are among the specific objectives of the National Strategy for Sustainable Tourism Development 2019-2023.

### *Structural Reforms*

## **SR #5: Research and innovation, economic integration, and improvement of services**

### ***Reform measure 5.1: Deepening economic integration***

#### ***1. Description of measure***

Implementation of Action Plan on CRM and the new one: Significant work is done at technical level under CEFTA for the realization of the measures foreseen at Action Plan on CRM and implementing AP5 and AP6. In 2024 the work will continue on finalizing measures that are under progress and starting the work for remaining measures foreseen in this Action Plan for 2023 and 2024. The finalization of work on technical level depends on the meeting of Joint Committee agreement for their approval. Albania has been very active at the implementation of the Action Plan of CRM. The approach that Albania has followed has been actively engaged and looking for consensus. Albania re commits at the implementation of the Action Plan of CRM by continuously to be active and searching for consensus among parties.

As stated at the EC's Communication on the new growth plan, dated 8<sup>th</sup> November 2023, an ambitious successor to the current Common Regional Market action plan must be developed before the current one expires in 2024. Albanian will be fully active at drafting the new action plan. For the moment, the main focus will be on finalization of the measures that are under implementation and the measures foreseen for the year 2023 and 2024 at the Action Plan of CRM.

Non-tariff barriers: Albania maintains few nontariff barriers compared at the other CEFTA barriers, based on the GIZ Report on Non-Tariff barriers among CEFTA parties. Besides the ongoing work at CEFTA level, Albania will establish an online platform on domestic legislation related to Non-Tariff Measures, in cooperation with UNCTAD, based on UNCTAD's standard. With the technical support by UNCTAD, Albania will establish an online platform for the domestic legislation related at the nontariff barriers according at the UNCTAD standards.

The simplification of custom procedures will be another major reform in compliance with commitments undertaken at Trade Facilitation Agreement of the WTO, focused at pre -arrival and Single Window.

NTFC: In 2024, the NTFC will continue with drafting the new three-year Action Plan based on the most important trade issues identifies by business representatives.

One stop shop: In the field of cross-border trade, three major projects are under implementation: Design and installation of a National Single Window; New Computerized Transit System – NCTS and Improvement of Border crossing point – Qafe Thane-Kjasafan. By the end of 2025, when these projects are expected to be finalised, we will have fully digitalized trade procedures, more simplified procedures as well as better coordination and cooperation with the region and EU.

New rules of origin: For the rules of origin of the Revised PEM Convention to be applicable, the Contracting Parties must have free trade agreements in force between them and they must contain identical rules of origin. Consequently, the adoption of the Revised Convention will be followed by amendments to the Appendices of the "Definition of the concept of "originating products" and "methods of administrative cooperation" of the free trade agreements that Albania has with the European Union - SAA, the CEFTA Agreement - 2006, the agreement with the EFTA states and the Agreement with Turkey. Amendments to the Convention will enter into force on January 1, 2025, allowing time for the Contracting Parties to complete internal procedures for approval and entry into force.

#### **a. Activities planned in 2024**

- a. Establishment of an online platform on domestic legislation related to non-tariff measures.
- b. Implementation of the Regional Action Plan for the establishment of the CRM in cooperation with the CEFTA Parties, by finalizing the measures that are under implementation, remaining measures foreseen for 2023 and new measures foreseen 2024 at CRM.
- c. Drafting and approval of the Action Plan 2024 – 2026 of the NCTF.
- d. Approval of draft-Legal changes related to the designing a National Single Window.
- e. New Computerized Transit System – NCTS.
- f. Development of the customs IT system to put the pre-arrival declaration into operation.
- g. Amendments to the Appendices of the "Definition of the concept of "originating products" and "methods of administrative cooperation" of the free trade agreements that Albania has with the European Union - SAA, the CEFTA Agreement - 2006, the agreement with the EFTA states and the Agreement with Turkey.

**b. Activities planned in 2025**

- a. Implementation of the new Regional Action Plan for the establishment of the CRM in cooperation with the CEFTA Parties
- b. Implementation of the Action Plan 2024 - 2026 of the NCTF.
- c. Design and installation of a National Single window.
- d. New Computerized Transit System – NCTS.
- e. Development of the customs IT system to put the pre-arrival declaration into operation.

**c. Activities planned in 2026**

- a. Implementation of the new Regional Action Plan for the establishment of the CRM in cooperation with the CEFTA Parties
- b. Implementation of the Action Plan 2024 - 2026 of the NCTF.
- c. Design and installation of a National Single window.
- d. New Computerized Transit System – NCTS.
- e. Development of the customs IT system to put the pre-arrival declaration into operation.

**2. *Results indicators***

Indicator	Baseline (2022)	Intermediate target (year)	Target (year)
Share of Albanian goods exported to EU	73.4%	74%	75%
Share of Albanian goods' s exported to CEFTA parties	16.8%	19%	22%
Waiting time at the border crossing point for clearance of goods	1.5 hours <sup>16</sup>	1.2 hour	1 hour

**3. *Expected impact on competitiveness***

Orientation of our foreign trade policy with the trade partners is based on addressing existing and future problems and obstacles faced by our businesses now and increasing market shares by removals of barriers to trade, harmonization of working hours of border agencies with neighbouring countries, etc. By removing these obstacles, it will boost the Albanian competitiveness in regional, EU and other markets. There is a clear link with improvements in the general business environment and sectorial improvements (industry, agriculture, transport/cargo handling, digitalisation, e-commerce).

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

Cost of activities and source of financing are detailed in table 10a and table 10b of Annex 1. The financing of the activities in the framework of the Common Regional Market Action Plan is from the European Commission. The above measures in the area of customs procedures will be carried out through the Western Balkans Trade Facilitation Project that supports Albania through the development of a National Single Window and moving to such an NSW environment. This loan agreement with the World Bank was approved in June 2019 by the Albanian Government and was ratified by Parliament in September of the same year.

<sup>16</sup> According to the study "Regional Report on Non-Tariff Measures in CEFTA"

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

Further openness of the Albanian trade policy towards increasing the possibilities of the businesses to increasing the market share in traditional and potential markets, will have a positive impact at the economy at increasing GDP and creating jobs.

6. Expected impact on the environment and climate change

These measures have no impact on the environment.

7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Delays at the approval of CEFTA Drafts Joint Committee Decisions due to political issues	High	Regional level
Delays for the approval of legal acts	High	Awareness on the importance of the measure

***Reform measure 5.2: Improving institutional, financial and human capacities for research and innovation***

1. Description of measure

The reform measure is in accordance with the Government's medium-term objectives for achieving the vision for education defined; 2030 Agenda for Sustainable Development, and it also outlines the vision of the National Strategy for Research, Science and Innovation 2023-2030: "By 2030, Albania will provide quality scientific research for a sustainable socio-economic development that is comprehensive and in accordance with international and European standards, based on new knowledge scientific and innovations in technology and innovation". Measure supports the fulfilment of the economic criteria for EU accession, the Principles of the European Research Area (ERA) and European Research Infrastructure Consortium (ERIC) standards. The envisaged reform measure will contribute towards the implementation of the policy guidance from the "Joint Conclusions of the Economic and Financial Dialogue between the EU and the Western Balkans and Türkiye" of 16 May 2023. The major priorities of the Albanian government in the field of scientific research are:

- a. Increased investment in research, in line with its own commitments and the new European Research Area priorities.
  - The 2023 budget for the "Scientific Research" program had an increase of 38.2% or 284.74 million ALL compared to 2022. The grant for research-scientific work and creative activities is planned to reach 1 billion 182 million ALL in 2025;
  - The target is the gradual increase of the budget for scientific research and innovation until 2030 to 1% of GDP, including the contribution of all actors (business sector, private higher education, non-profit organizations, various ministries and municipalities) as well as increasing the participation of our institutions in EU framework programs, such as Horizon Europe.
- b. Complete the smart specialisation strategy, and adopt the new law on scientific research.
  - During 2023, the qualitative and quantitative phase for the development of a Smart Specialisation Strategy was completed and also the second phase of the Entrepreneurial Discovery Process is finalised. The Deputy Prime Minister's Office is now responsible for coordinating the development of the smart specialisation strategy. Albanian S3 strategy is foreseen to be finalized within the first semester 2024;
  - By DCM No. 542, dated 20.9.2023, "For the approval of the National Strategy for Scientific Research, Technology and Innovation 2023-2030 and the action plan for its implementation" the new strategic document for science, technology and innovation has been adopted and is ready for implementation;
  - New draft law on scientific research is under public consultation and is foreseen to be finalized within the first trimester 2024.
- c. Produce statistics and reliable data on science and technology.
  - Albania was included for a second consecutive year in the European Innovation Scoreboard as an emerging innovator facing however a decrease in its score from 41.7% in 2022 to 41.1% of the EU average in 2023.

- Further efforts need to produce reliable data on research and innovation. Information on the budget allocated for R&D (GERD indicator) has not yet been published due to the poor quality of data.
- INSTAT, during 2023, collected survey data on Scientific Research and Development activity 2020-2022 for four sectors: private enterprises, public institutions, higher education institutions and non-profit organizations.
- In order to produce quality statistics for the sectors of public institutions and institutions of higher education, inter-institutional working groups will be organized where the methodology and detailed indicators according to the relevant institutions will be determined.

Some part of the measure is rolled over from the previous year, and activities planned in previous years have been implemented according to the planning, while others are planned to be completed in the following years, as was foreseen in the previous ERP document and also in National Strategy for Scientific Research, Technology and Innovation 2023-2030.

#### **a. Activities planned in 2024**

- Increasing financial support for scientific research through doubling of the budget for scientific research projects ran by NASRI.
- Finalization and approval of the Smart Specialization Strategy (S3) and the new legal framework for science in the Republic of Albania.
- Increasing cooperation between Higher Education Institutions, central and local government institutions, the business sector and civil society through the expansion of research and development of joint projects. (Quadruple Helix Model). NASRI is the main responsible institution for coordinating and implemented the process.

#### **b. Activities planned in 2025**

- Creation of a National Coordinating Structure for policies on Science, Technology and Innovation under MES's responsibility.
- Drawing up performance indicators on scientific research for the purpose of comparison at the European and international level. INSTAT is main responsible institution.
- Completion of the legal basis for the international transfer of technologies and strengthening the capacities of HEIs for international technology transfer. General Directorate of Industrial Property (GDIP) is the institution that will this lead process

#### **c. Activities planned in 2026**

- Development of new infrastructures that enable the international transfer of technologies under the MFE's responsibility.
- Drafting of projects for the creation of regional centers of technology and innovation in order to support technological development under MES's responsibility.

### **2. Results indicators**

Indicator	Baseline (2024)	Intermediate target (2025)	Target (2026)
Number of Research and Development projects funded by MES through NASRI	90	95	100
Number of Research Infrastructure projects funded by MES through NASRI for public HEIs	50	60	70
Number of Innovation academia – business – others joint projects, promoting the Quadruple Helix Model, funded by MES through NASRI	20	25	30
Number of bilateral agreements / projects funded by MES through NASRI	15	20	30
Number of multilateral projects funded by MES through NASRI	5	10	15
Number of R&I projects funded by line ministries according to their field of competence	20	25	30
% of research and innovation fund versus GDP (GERD)	0.15%	0.2%	0.25%

### **3. Expected impact on competitiveness**

Increase funding in scientific research and innovation Albania will provide quality scientific research for a comprehensive and sustainable socio-economic development, and in accordance with international and European standards, based on new scientific and innovation knowledge.

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

The total budget of the research program as planned in the draft mid-term budget of the Ministry of Education and Sports and line ministries.

#### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

Increasing the funding of scientific research, supporting joint innovative projects with business and strengthening the ecosystem of scientific research and innovation will lead to increased competitiveness, a shaped labour market and an increased employment opportunities. The positive impact on employment will be reflected in the creation of a long-term sustainability for qualified personnel. Reducing the barriers that keep women, young people and girls away from the labour market, as well as increasing the access of women, young people and girls from all groups, to decent work even in non-traditional employment sectors, (in particular in science, technology, engineering, mathematics) it is also one of the positive impacts of the research and innovation policy.

#### 6. Expected impact on the environment and climate change

It is currently estimated that the measure has no impact on the environment.

#### 7. Potential risks

<i>Risk</i>	<i>Probability (low, high)</i>	<i>Planned mitigating action</i>
Lack of coordination between different funding institutions in field of research and innovation	Medium	Establishment of National Coordinating Structure for policies on Science, Technology and Innovation will increase the level of cooperation between relevant stakeholders (local government, other Ministries, Academy of Sciences, non-profit organizations, etc.)
Delay in adoption and approval of different secondary legislation, after the primary legislation has been approved and entered into force.	Medium	Resources that provide technical assistance in the preparation of all the bylaws will be identified. For this it will be necessary the expertise of foreign and domestic expert
Lack of interest and low level of business – academia cooperation for joint innovative projects	High	Promotion and continuous support of this cooperation by the responsible institutions
Low level of absorption and use of funds by HEIs, due to the lack of competence of the academic staff in project writing and project - management	Medium	Continuous training of academic staff in writing and financial management of projects in framework of national and international project funding. Expertise of foreign and domestic experts is needed.

### ***Reform measure 5.3: Strengthening the fight against informality***

#### 1. Description of measure

Strengthening the fight against informality is a strategic objective of the Tax Administration, which has periodically improved its activity in achieving this objective. Being guided by the best risk management practices, following sectoral plans according to modern risk management methodologies, carrying out audits and controls based on modern risk analysis as well as implementing a major reform such as fiscalization are some of the concrete actions undertaken by the Tax Administration in the framework of reducing informality. These actions and measures undertaken and to be undertaken by the Tax Administration are in line with the main priority of the MTRS draft (Medium Term Revenue Strategy).

*Reduction of the compliance gap related to VAT:*

The Risk Committee was established to implement this measure with utmost efficiency by examining certain risk phenomena on a monthly basis and identifying the most risky taxpayers through the intersection of various information and analyses. Our focus on the future will remain on VAT revenues, prioritizing key sectors such as tourism, and also increasing registration for VAT.

*Reduction of undeclared work, under-declaration of wages:*

The tax administration is tackling labour market informality through four avenues: non-registration of employees, incorrect declaration of wages, inaccurate reporting of working hours, and misrepresentation of employment category and profession.

Based on Order No.1 of the Prime Minister led by the Ministry of Finance and Economy, the initiative undertaken by an Anti-informality unit continues on ongoing plans in coordination with a number of state institutions where GDT had an essential role.

The initial findings from the 6-month comparison between 2023 and 2022 are as follows:

Description	Change 06/2022 vs 06/2023
# Taxpayers who have submitted the Payroll	+1,884
# Employed individual (unique ID)	+9,694
# Job positions	+10,522
# Job positions with minimum salary ( currently 400 Euro )	-71,473
# Average salary (contributions)	+9,090

*Unjustified wealth investigation:*

The treatment of wealthy individuals has not been neglected by the Tax Administration, where, in addition to the drafting of the 2023 compliance plan, the analysis and checks with risk-based information in cooperation with third parties have also begun.

GDT is undertaking a pilot project with the General Directorate of Road Transport Services of Albania to compare individuals who own luxury cars with their declaration of personal income, (DIVA) as a first phase of this project and in the future to expand the exchange of information in other taxpayer's assets. We will also consider the individuals subject to sanctions in accordance with the agreement our country has with international organizations.

*Reducing tax fraud*

The Field and Verification Unit is engaged in the verification and identification of taxpayers in implementation of the Operational Plans that are approved by the Operational Committee and the Risk Committee in the GDT. The main objective of their work is the prevention, awareness, identification and attack of illegality in the field of taxes and taking the relevant administrative measures against tax violations. For 2022, the number of field verifications numbered 12,754 and 917 administrative measures were taken for taxpayers with violations of tax legislation. The value of the established violations is calculated at 49,895,000 all (466,000 Euros). As for the tax investigation will focus on in work processing entities who try to avoid payment of social contributions and entities that use vat schemes for fraud.

*Reducing compliance costs and increasing tax security and trust in the tax administration*

From March 2023, the automatic declaration of sales and purchase books from the Fiscalization System to the C@TS system has been enabled, reducing the time of declaration to zero and maximizing the quality and accuracy of the declaration for taxpayers. We are working to achieve the automatic pre-filling of the VAT declaration, automating 100% the VAT invoicing and declaration process and pre-filling of personal income tax declaration, moving forward compliance by design principals. As for the refund process the average refund time has decreased from 45 days in 2022 to 35 days currently, aiming to reducing it further more.

*Improving the quality of the service provided by the Tax Administration (TA) through the development of the institutional capacities of the tax administration.*

This initiative aims to further enhance public service readiness, quality, transparency, reduce administrative processing times and costs, protecting private data based on the current legislations. The General Directorate

of Taxation provides numerous services via the e-Albania portal, enabling individuals and taxpayers to efficiently access necessary services, thus saving time, resources, and administrative expenses. This online platform offers 31 services, including 14 for online tax payments. The shift to online services has notably increased service applications to approximately 3.2 million.

#### a. Activities planned in 2024

- a. Implementation of annual sectoral plans based on plans according to industries, sectors, geographical distribution, type of tax and phenomena based on the implementation and improvement of modules (Fiscalization and C@ts).
- b. Campaign of registration for VAT purpose.
- c. Joint analyses with the help of Swedish Tax Administration experts for tackling tax avoidance for new registered taxpayer.
- d. Integration and use of data from third parties of the tax administration {national utilities authorities (water, electricity), vehicle registration, municipalities, etc.}.

#### b. Activities planned in 2025

- a. Drafting of a comprehensive integrated approach in the direction of non-declaration of employees' salaries.
- b. Prefilled VAT and personal income tax returns (Prefilling the tax returns with information from fiscalization).
- c. Developing BI reports on analysing data for VAT and other tax purpose.

#### c. Activities planned in 2026

- a. Taking measures and developing activities to reduce cash payments in the economy.
- b. Construction of the Register of Taxpayers' Assets (movable & immovable).
- c. Achieving compliance by design through system rules and automated processes

### 2. Results indicators

Indicator	Baseline (2021)	Intermediate target (2024)	Indicator (2026)
Increased of declared work	699,263 employees	+1%	+2%
Increase in health and social insurance contributions**	984 mn EUR <sup>17</sup>	+5%	+7%
Prefilling of VAT return	0%	50%	100%

\*\*Baseline data is for the period of December 2021, as payroll reports are done monthly.

### 3. Expected impact on competitiveness

Strengthening the fight against informality in the economy will create a better climate of fair taxation and increase taxpayers' trust in the tax administration. It will also reduce unfair competition between formal and informal businesses, increase income and, indirectly, funds available for infrastructure investment.

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

There are no additional costs for the State Budget.

### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

This reform measure contributes to competition and will also allow to reduce the cost of revenue collection. By increasing the number of declared employees and the number of declared wages to their real level, this will indirectly contribute to the creation of jobs, fair taxation and better social security for employees. This reform measure can have a positive impact on gender equality, will increase formal employment, increase incomes and, consequently, the funds available for infrastructure investments and health coverage, increase foreign direct investment and improves competitiveness.

<sup>17</sup> 106.2 bn ALL (Rate 1 euro = 108 ALL)

6. *Expected impact on the environment and climate change*

There is no expected impact on the environment or climate change from the proposed reform measure.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Delay in activities	Low	Regular monitoring of the implementation of activities
Uncertainty about the future can lead to increased non-compliant behaviour	Low	Adapting plans and actions according to the situation

**SR #6: Improving business environment for SMEs and start-ups*****Reform measure 6.1: Developing a legal framework to support innovative start-ups***1. *Description of measure*

Our future as an Entrepreneurial nation rest on our ability to transform information into knowledge and drive long-term national mission that will transform our economy over the next decade. At the heart of this, we need to put our talent, build our capabilities and focus our resources into transforming the way we create economic value for our citizens. We must show leadership and forward-looking operating models, to help individuals, business and entrepreneurs to create quality jobs and build valuable products and services fit for the future.

*Measure - National Strategy for the Development of the Start-up Ecosystem*

This Strategy calls for a change in Albania's value creation model, focusing on innovative entrepreneurship and increased productivity, to strengthen the growth of our economy and the well-being of our people. Within this framework, the Strategy mission outlines a clear goal to create a new economic model based on the pillars of innovative entrepreneurship.

This Strategy identifies three levers on which to improve national economic standing. Firstly, by focusing on innovative entrepreneurship, secondly, activate and support entrepreneurs in strategic industries, which can have medium-term effects on the economy, and lastly, build financial instruments that support development over the long term.

Albanian Entrepreneurial Strategy has been developed to turn a vision into reality with the goal of becoming a successful Entrepreneurial Nation by 2030, creating and spearheading a new innovative entrepreneurship economic model that will have lasting effects in our common objective. A nation that will not only stimulate massive growth of this economic sector but will generate virtuous circles within entrepreneurship as well as within the country's driving economic sectors. In turn, this will increase economic productivity and generate quality employment for as many people as possible through the stimulus of innovative growth. In short, this Strategy lays the foundation for changing Albania's national value creation as we know it today.

The innovative entrepreneurship model is based on three pillars:

1. Innovative entrepreneurship
2. Strategic Sectors
3. Inclusive Development

**a. Activities planned in 2024**

- a. Launch Start-up Albania agency
- b. Launch Albania Entrepreneurial Strategy measures and implementation activities
- c. Launch funding calls for start-up companies in early, validation and growth stages based on the strategy
- d. Build two certified incubator programmes
- e. Launch Business Angel Training programme and train 10 business angels
- f. Review and improve legal framework for equity investment into start-up companies
- g. Design Stakeholder Coordination Programme
- h. Design & launch measures to increase the number of high value digital nomads in Albania
- i. Create a professional mentorship network
- j. Launch Innovation Fund



- k. Create incentive scheme for VC and CVC funds to be launched

**b. Activities planned in 2025**

- a. Establish 2 certified incubator programmes in 2 other cities
- b. Launch one regional transformation center
- c. Train 30 business angels
- d. Increase number of funding instruments for start-up companies- Venture capital
- e. Launch funding calls for start-up companies in early, validation and growth stages
- f. Launch call for funding university spin-off companies
- g. Launch diaspora engagement programme
- h. Develop foreign sales missions for growth start-up companies
- i. Develop early-stage virtual educational platform for founders
- j. Launch two sandbox projects

**c. Activities planned in 2026**

- a. Support establishment of two private venture capital funds
- b. Launch funding calls for start-up companies in early, validation and growth stages
- c. Launch funding calls aimed at women entrepreneurs
- d. Launch call for university spinoffs
- e. Support creation of Technology transfer offices within universities
- f. Create one elite acceleration programme focused on selected industries
- g. Create National Super Cluster programme

**2. Results indicators**

<b>Indicator 2024</b>	<b>Baseline</b>	<b>Intermediate target</b>	<b>Target</b>
Launch Start-up Albania agency	Agency agreed but not established	Staff the agency	Agency fully functional
Launch Albania Entrepreneurial Strategy measures and implementation activities	Start-up law passed but no governing strategy for developing the ecosystem	Strategy launched	Strategy launched and 40 measures agreed
Launch funding calls for start-up companies in early, validation and growth stages	No grant support in 2023	100 start-ups funded and 3 facilitators	150 start-ups funded and 3 facilitators
Launch funding calls aimed at women entrepreneurs	No grant support in 2023	30 start-ups funded	50 start-ups funded
Launch Business Angel Training programme and train 20 business angels	New initiative	10 business angels trained	30 business angels trained
Review and improve legal framework for equity investment into start-up companies	New initiative	Coordinate with national stakeholders on activities	Coordinate national and international stakeholder and align activities to improve ecosystem
Design and launch measures at increasing the numbers of digital nomads in Albania	Digital nomads measures passed within start-up law	Design focused activities on attracting digital nomads	Implement activities and build platform for attracting high value nomads
Create a professional mentorship network	Local mentor networks mostly local with some	Develop a network comprising only	Develop a network that comprises national and

	exposure of Albanian diaspora	Albanian founders	international founders
<b>Indicator 2025</b>			
Launch one regional transformation centre	New initiative	Business Model Developed and funding secured	1 centre developed
Build 2 <sup>nd</sup> Regional transformation centre	No programmes outside Tirana	Launch first incubator programme	Launch 2 <sup>nd</sup> incubator programme
Train 30 business angels	One Transformation centre functional	Build second transformational centre	Build second transformational centre
Launch funding calls for start-up companies in early, validation and growth stages	Legal framework in place	Support set up of the fund with technical assistance	Launch co-investment scheme with the fund for start-up companies
Launch funding calls aimed at women entrepreneurs	2 <sup>nd</sup> call launched in 2024	100 start-ups funded and 3 facilitators	150 start-ups funded and 3 facilitators
Launch call for funding university spin-off companies	No grant support in 2023	30 start-ups funded	50 start-ups funded
Launch diaspora engagement programme	No support	Fund 5 university spinoffs	Fund 10 university spinoffs
Develop foreign sales missions for growth start-up companies	Engagement programmes in place but not targeted	Increase capital activity of diaspora into Albanian start-ups	20 Albanian start-ups funded by diaspora led capital instrument
Develop early-stage virtual educational platform for founders	Some support focused on promotion	5 companies taken into selected markets	10 companies taken to selected markets
<b>Launch 2 sandbox projects</b>	Fragmented information platforms and unqualified advisory services offered	Launch official platform through Start-up Albania agency	Launch 2 virtual self-taught programmes and founders tools in the platform
<b>Indicator 2026</b>	<b>N/A</b>	<b>Launch 1 sandbox project</b>	<b>Launch 2<sup>nd</sup> sandbox project</b>
Launch Fund of Funds	Baseline	Intermediate target	Target
Support establishment of two private venture capital funds	Existing state fund for grant scheme	Build infrastructure for fund operations	Launch fund
Launch funding calls for start-up companies in early, validation and growth stages	Legal framework reviewed and adopted	Support through technical assistance setting up of one additional fund	Support through technical assistance setting up of one additional fund

Launch funding calls aimed at women entrepreneurs	3 <sup>rd</sup> call launched in 2025	100 start-ups funded and 3 facilitators	150 start-ups funded and 3 facilitators
Launch call for funding university spin-off companies	No grant support in 2023	30 start-ups funded	50 start-ups funded
Support creation of Technology transfer offices within universities	No support	Fund 5 university spinoffs	Fund 10 university spinoffs
Create one elite acceleration programme focused on selected industries	Some technology transfer programmes	Establish the framework for technology transfer offices to operate inside/outside universities	Establish first technology transfer office
Create National Super Cluster programme	Pre-acceleration programmes exist	Attract stakeholders to build one acceleration programme	Launch elite acceleration programme with an international partner
	Cluster framework in place	4 sectors identified to be included in the super cluster programmes	Launch national super cluster

### 3. Expected impact on competitiveness

Albania Entrepreneurial strategy will focus on delivering novel instruments to help companies grow and become competitive in the national, regional and world markets from the start. The strategy will positively impact: Entrepreneurs working in strategic sectors; Increase productivity through qualified advisory and professional mentorship network; Increase potential to scale fast through multiple funding instruments such as grant scheme for early stage, business angel and venture capital for growth stages; Increase product and service quality from the design phase; Activate universities as test beds for new technology development; Increased number of founders with the right skills to create sustainable companies; Attract diaspora talents to base their companies in Albania; Better programme management and increased stakeholder alignment; Sectorial and sub-sectorial focused interventions to impact entrepreneurs.

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

Estimated costs are 20 mln euros (9.66 mln provided by state budget, 3 mln through national EU financed projects, 5 mln through project finance, and 2.4 mln through engagement of private capital.)

### 5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care

The interventions in the start-up ecosystem and new initiative for access to finances will lead to an increased employment among youth, women, and other segments of society. The employment opportunities generated by constant investment and generated growth, will create a virtuous cycle of qualitative employment in different sectors of the economy.

Increased capital mobilisation in combination with increased access to finance for all citizens, will help reduce poverty rates and create opportunities for entrepreneurs all over the country.

Activities aimed at women entrepreneurs are designed to increase not only participation of women in the economic life, but for them to select entrepreneurship as career choice, working from Albania to build goods and services for the international markets.

### 6. *Expected impact on the environment and climate change*

The measures are designed to complement strategic approach of the Government of Albania and other implementing agencies for the protection of the environment. Entrepreneurs will be incentivised to build products and services that adopt relevant SDGs on environment and climate change and create products and service that have environment as a priority

### 7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Delays in setting up the agency	Medium	Start-up agency should be formed and staffed in full by end of 2023.
Budget funds for activities are not streamlined	Low	Creation of agency
Low start-up creation	Medium	Low number of qualitative start-ups for the first 2 years
Bureaucratic delays in aligning stakeholders	Medium	Minister for Entrepreneurship and higher levels of government support the strategy implementation along the way
Delays in building permits	High	Engage early with municipalities and other agencies
Delays in legal framework improvements	Medium	Work with stakeholders to push through legislative changes

## ***Reform measure 6.2: Enhancing e-commerce, increasing access to finance and consultation mechanism, and improving the internationalization and promotion of exports***

### 1. *Description of measure*

The Strategy of Investment and Business Development for the period 2021-2027 and the Action Plan for the implementation of the Strategy in the period 2021-2023 is in force and the basis for the design of further business support measures and investment measures. The adoption of Law No 43/2022 of 21.04.2022 “On the development of micro, small and medium sized enterprises” enables the development of business support services to create a business environment to nurture SMEs’ greening transition, further accelerate SME digitalisation and enhance e-commerce support measures. The establishment of the Consultative Council for SMEs based on the Law no. 43/2022 “On the development of micro, small and medium sized enterprises”, will expansion the range and quality of business development services and help to improve the competitiveness of SMEs.

In the coming period, special attention will be focused towards the development of policy documents and important strategy formulations, Industrial transformation, successful models of collaboration of multiple helix, of central and local government and business, and universities.

In addition during the coming period, special attention will be paid to the development of support services (trainings, coaching etc.). The development of the business development service is strongly in line with the demand of the Albanian businesses which seek to strengthen their competitiveness and increase the export quantities of products and services to the EU and Western Balkan markets. Accordingly, the support services revolve particularly around the topic of digitalization of business processes, green economic development and internationalization of business activities. The activities will also support the implementation of the BIDS Action plan, which envisages an expansion of the range of business development services.

#### **a. Activities planned in 2024**

- Consultation and approval of the Roadmap for National Policies for Promotion of Exports and Internationalization 2024-2027
- Consultation and approval of the 2024-2026 E-Commerce Action Plan together with the plan of measures
- Implementation of the Financial Agreement for granting grants to MSMEs by ProSeed

#### **b. Activities planned in 2025**

- a. Analysis of a certain sector where Albania has an advantage in exports and the drafting of a guide for this sector
- b. Follow-up of measures according to the annual plan of the E-Commerce Action Plan
- c. Grants to MSMEs

**c. Activities planned in 2026**

- a. Monitoring the implementation of the Export Roadmap measures
- b. Monitoring the implementation of the measures of the E-Commerce Action Plan
- c. Implementation of the grant schemes for grants to MSMEs

**2. Results indicators**

Indicator	Baseline (2022)	Target (2024)	Target (2026)
Implementation of the measures of the e-commerce action plan	4	1	3
Implementation of MSME grants ( <i>Number of beneficiary MSMEs receiving grants</i> )	75	75	75

**3. Expected impact on competitiveness**

Providing support measures to business will directly lift the competitiveness level of the businesses who take part in the measure. A general impact on the competitiveness of MSMEs can be expected if the number of services increases overall, more organizations have the capacity to offer them and the access to these services becomes easier. The reform measures will intensify activities that strive for systematic expansion of services and strengthening the capacities of their providers. The measures also stimulate an environment that considers relevant trends such as digitalization, green economic development and thus fosters competitiveness through increased innovation.

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

Cost of activities are mainly administrative cost. If any of the activities should be implemented with donor support, they will be reported.

**5. Expected impact on social outcomes, such as employment, poverty reduction, gender equality and access to health care**

Designing of measures for enhancing green and digital businesses will increase directly the competitiveness of Albanian businesses which provide a contribution to growth and employment as well as an improved resistance towards challenges of the economy. This will enable companies to pay better wages and invest in training their employees. Due to the benefits for the entire economy, tax revenues will increase and more funds will be finally available to invest in education, health and investment projects. All these aspects underline why the business support is so important for Albania as an attractive economic location. Furthermore, providing the required trainings on the emerging themes will create opportunities for additional employment on one side, while the development of capacities of employers and employees will result in improvements of the working conditions. The reform is particularly important because it will help empower women entrepreneurship by facilitating communication channels towards knowledge and financing, which is important for entrepreneurs as well.

**6. Expected impact on the environment and climate change**

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

**7. Potential risks**

Risk	Probability (low, high)	Planned mitigating action
Delays during data collection from institutions	Low	Increasing staff number for data collection and monitoring

## Summary of reform measures

### SR 1: Education and skills

Reform measure 1.1: Increasing the quality and access to VET

Reform measure 1.2: Development and empowerment of digital competency of teachers

### SR 2: Access to social protection and healthcare, and increased employability for vulnerable groups

Reform measure 2.1: Improving accessibility in social programs and healthcare

Reform measure 2.2: Improving the employability of the most vulnerable unemployed jobseekers

### SR 3: Renewable energy and green transition

Reform measure 3.1: Promoting renewable energy and reducing the carbon footprint

Reform measure 3.2: Innovative Structural Interventions and Technology Innovations for Renewable Energy in Irrigation and Drainage Pumping Stations

### SR 4: Digital transformation and infrastructure

Reform measure 4.1: Development of the broadband infrastructure for the digital economy

Reform measure 4.2: Improving access to e-services, enhancing digital skills of users, and strengthening GovTech

Reform measure 4.3: Rehabilitation of the Albanian railway network and interconnectivity for a sustainable transport

### SR 5: Research and innovation, economic integration, and improvement of services

Reform measure 5.1: Deepening economic integration

Reform measure 5.2: Improving institutional, financial and human capacities for research and innovation

Reform measure 5.3: Strengthening the fight against informality

### SR 6: Improving business climate for SMEs and start-ups

Reform measure 6.1: Developing a legal framework to support innovative start-ups

Reform measure 6.2: Enhancing e-commerce, increasing access to finance and consultation mechanism, and improving the internationalization and promotion of exports

## **6. THE COST AND FINANCING OF STRUCTURAL REFORMS**

Expected expenditures in the state budget include funds for key structural reforms for the upcoming medium-term period. Budgetary expenditures are spread across the structural reforms included in the Economic Reform Programme 2024-2026. Details of the budgetary implications of the reforms are found in tables 10a and 10b of Annex 1. The projected expenditures of the budget of the Republic of Albania also include expenditures for key structural reforms in the corresponding period.

## **7. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT**

The Economic Reform Programme (ERP) 2024-2026 cycle was officially launched by the European Commission on 14 July 2023.

The drafting and preparation of the Economic Reform Programme (ERP) 2024-2026 was coordinated by the Ministry of Finance and Economy with contributions from various institutions, such as: the Ministry of Infrastructure and Energy; Ministry of Agriculture and Rural Development; Ministry of Health and Social Protection, Ministry of Education and Sports, Ministry of Tourism and Environment, National Agency for Information Society, National Agency for Scientific Research and Innovation, General Directorate of Taxation, the Bank of Albania, and INSTAT.

The Order of the Prime Minister No. 107, dated 6.8.2019 defines the framework for the coordination of the ERP process at the national level and appoints the Minister of Finance and Economy with the function of National ERP Coordinator. The Ministry of Finance and Economy leads the coordination process institutionally with the respective departments within the ministry taking over leadership for drafting and preparing specific chapters, as well as the overall coordination of the process. There is a noticeably higher degree of ownership by institutions with regard to their proposed structural reforms, which is primarily a result of better defined and understood roles and responsibilities within the overall process.

On 15 December 2023 was held a meeting of the Investment Council with a primary focus being the consultation of the draft ERP 2024-2026 and the structural reforms proposed in the document. The Investment Council is chaired by the Minister of Finance and Economy and supported by its Technical Secretariat, whose assistance was valuable for ensuring that the consultation went smoothly and that the relevant stakeholders were reached out and received the draft ERP ahead of the meeting, and in collecting their feedback, post meeting. Representatives from business associations, development partners, and other interested actors were present at the meeting and the draft ERP was discussed.

The Council of Ministers approved the Economic Reform Programme 2024-2026 on 11 January 2024. The ERP 2024-2026 was officially transmitted to the European Commission within 15 January 2024.



## Annex I

**Table 1a: Macroeconomic prospects**

Percentages unless otherwise indicated	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	16.4	4.9	3.5	3.7	3.9	4.0
2. GDP at market prices	B1*g	18.0	15.2	8.1	5.3	5.1	5.2
<b>Components of real GDP</b>							
3. Private consumption expenditure	P3	12.8	7.1	1.3	2.6	3.5	3.1
4. Government consumption expenditure	P3	1.8	-4.7	3.9	9.0	2.6	5.6
5. Gross fixed capital formation	P51	4.0	6.5	7.6	2.6	2.8	4.9
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.4	2.3	0.5	0.5	0.4	0.4
7. Exports of goods and services	P6	5.3	7.5	2.9	5.9	5.5	4.2
8. Imports of goods and services	P7	7.9	13.1	1.9	4.0	3.7	3.3
<b>Contribution to real GDP growth</b>							
9. Final domestic demand		18.6	6.5	3.2	3.5	3.6	4.0
10. Change in inventories and net acquisition of valuables	P52+P53	0.4	1.9	0.0	0.0	0.0	0.0
11. External balance of goods/services	B11	-2.6	-3.5	0.2	0.3	0.3	0.1

**Table 1b: Price developments**

Percentage changes, annual averages		Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. GDP deflator	%, yoy	9.9	4.5	1.5	1.1	1.1
2. Private consumption deflator	%, yoy	6.3	5.4	2.6	1.5	1.4
3. HICP	%, yoy	6.7	4.8	3.0	3.0	3.0
4. National CPI change	%, yoy	6.7	4.8	3.0	3.0	3.0
5. Public consumption deflator	%, yoy	3.4	0.1	0.1	0.1	0.1
6. Investment deflator	%, yoy	6.1	0.9	0.7	0.5	0.5
7. Export price deflator (goods & services)	%, yoy	28.0	1.5	0.8	1.1	1.1
8. Import price deflator (goods & services)	%, yoy	8.8	0.7	1.9	1.1	1.1

**Table 1c: Labour markets developments**

	ESA Code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level	Rate of change				
1. Population (thousands)			2,793.6	2,785.8	2,777.1	2,767.3	2,756.3
2. Population (growth rate in %)			-1.3	-0.3	-0.3	-0.4	-0.4
3. Working-age population (persons) <sup>18</sup>			1,898.8	1,890.8	1,882.0	1,872.6	1,862.5
4. Participation rate			73.2	74.7	75.1	75.4	75.7
5. Employment, persons <sup>19</sup>			1,233.3	1,262.7	1,269.2	1,273.6	1,275.9
6. Employment, hours worked <sup>20</sup>			:	:	:	:	:

<sup>18</sup> Age group of 15-64 years

<sup>19</sup> Occupied population, domestic concept national accounts definition

<sup>20</sup> National accounts definition

7. Employment (growth rate in %)			4.8	2.4	0.5	0.3	0.2
8. Public sector employment (persons)			184.7	184.7	184.7	184.7	184.7
9. Public sector employment (growth in %)			0.0	0.0	0.0	0.0	0.0
10. Unemployment rate <sup>21</sup>			11.3	10.6	10.2	9.8	9.5
11. Labour productivity, persons <sup>22</sup>		1578.2	0.0	1.0	3.2	3.5	3.8
12. Labour productivity, hours worked <sup>23</sup>			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

**Table 1d: Sectorial balances**

Percentages of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-6.0	-4.7	-4.8	-4.5	-4.3
of which:						
- Balance of goods and services		-10.4	-9.1	-9.0	-8.3	-7.9
- Balance of primary incomes & transfers		4.3	3.9	3.8	3.4	3.3
- Capital account		0.1	0.5	0.4	0.4	0.3
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-2.5	-3.0	-2.7	-2.9	-2.5
3. Net lending/borrowing of general government		-3.7	-2.2	-2.5	-2.1	-2.1
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

<sup>21</sup> Harmonised definition, Eurostat; levels

<sup>22</sup> Real GDP per person employed

<sup>23</sup> Real GDP per hour worked

**Table 1e: GDP, investment and gross value added**

	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
<b>GDP and investment</b>						
GDP level at current market prices (in domestic currency)	B1g	2,138.3	2,311.7	2,434.3	2,557.7	2,690.5
Investment ratio (% of GDP)		23.9	24.0	23.5	23.1	23.2
<b>Growth of Gross Value Added, percentage changes at constant prices</b>						
1. Agriculture		0.1	-0.2	2.4	2.2	2.7
2. Industry (excluding construction)		5.5	-0.4	4.2	4.6	4.7
3. Construction		10.7	7.4	3.1	2.6	2.6
4. Services		6.1	5.5	4.3	4.6	4.7

**Table 1f: External sector developments**

Billion Euro unless otherwise indicated	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Current account balance (% of GDP)	-6.0	-4.7	-4.8	-4.5	-4.3
2. Export of goods	1.9	2.0	2.2	2.3	2.4
3. Import of goods	6.2	6.7	7.2	7.5	7.9
4. Trade balance	-4.3	-4.7	-5.0	-5.3	-5.5
5. Export of services	4.8	5.6	6.0	6.4	6.7
6. Import of services	2.4	2.8	2.9	3.1	3.2
7. Service balance	2.4	2.8	3.0	3.3	3.5
8. Net interest payments from abroad	-0.8	-0.8	-0.8	-0.9	-1.0
9. Other net factor income from abroad	0.4	0.3	0.4	0.4	0.4
10. Current transfers	1.1	1.4	1.4	1.4	1.5
11. Of which from EU	:	:	:	:	:
12. Current account balance	-1.1	-1.0	-1.1	-1.1	-1.1
13. Foreign direct investment	0.9	1.6	1.6	1.6	1.6
14. Foreign reserves	1.2	1.3	1.4	1.4	1.5
15. Foreign debt	:	:	:	:	:
16. Of which: public	5.6	6.1	5.9	6.0	6.2
17. O/w: foreign currency denominated	:	:	:	:	:
18. O/w: repayments due	:	:	:	:	:
19. Exchange rate vis-à-vis EUR (end-year)	119.0	109.5	109.5	109.5	109.5
20. Exchange rate vis-à-vis EUR (annual average)	114.9	110.0	110.0	110.0	110.0
21. Net foreign saving (lines 21-25: percentages of GDP)	1.1	1.0	1.1	1.1	1.1
22. Domestic private saving	2.8	3.4	3.5	3.6	3.9
23. Domestic private investment	3.2	3.6	3.8	4.1	4.3
24. Domestic public saving	0.5	0.7	0.7	0.7	0.7
25. Domestic public investment	1.1	1.4	1.4	1.3	1.4

**Table 1g: Sustainability indicators**

	Dimension	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023
1. Current Account Balance	% of GDP	-7.9	-8.7	-7.7	-6.0	-4.7
2. Net International Investment Position	% of GDP	-48.5	-53.8	-51.2	-49.5	-44.0
3. Export market shares	%, yoy	70.8	-78.9	325.7	24.4	:

4. Real Effective Exchange Rate <sup>24</sup>	%, yoy	-3.8	-2.5	-2.2	-1.7	-8.8
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	1.9	2.1	2.4	2.6	:
7. Private sector debt	% of GDP	55.7	61.9	58.1	52.3	49.0
8. General Government Debt	% of GDP	65.8	74.3	74.5	64.5	61.5

**Table 2a: General government budgetary prospects**

	ESA code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-78.2	-3.7	-2.2	-2.5	-2.1	-2.1
2. Central government	S1311	34.4	1.6	3.2	2.1	2.9	2.8
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-24.9	-1.2	-1.3	-1.5	-1.6	-1.5
5. Social security funds	S1314	-87.7	-4.1	-4.0	-3.2	-3.4	-3.4
General government (S13)							
6. Total revenue	TR	572.8	26.8	28.0	27.8	27.8	27.8
7. Total expenditure <sup>25</sup>	TE	651.0	30.4	30.2	30.3	29.8	29.9
8. Net borrowing/lending	EDP.B9	-78.2	-3.7	-2.2	-2.5	-2.1	-2.1
9. Interest expenditure	EDP.D41	39.6	1.9	2.2	2.7	2.8	3.1
10. Primary balance <sup>26</sup>		-38.6	-1.8	0.0	0.2	0.8	0.9
11. One-off and other temporary measures <sup>27</sup>		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		352.2	16.5	16.8	16.8	16.9	17.0
12a. Taxes on production and imports	D2	253.4	11.9	11.6	11.7	11.8	11.8
12b. Current taxes on income and wealth	D5	51.1	2.4	2.7	2.9	3.0	3.0
12c. Capital taxes	D91	47.7	2.2	2.6	2.2	2.1	2.2
13. Social contributions	D61	121.9	5.7	6.2	6.4	6.5	6.5
14. Property income	D4	0.1	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14)) <sup>28</sup>		98.6	4.6	5.0	4.5	4.4	4.3
16 = 6. Total revenue	TR	572.8	26.8	28.0	27.8	27.8	27.8
p.m.: Tax burden (D2+D5+D61+D91-D995) <sup>29</sup>		474.1	22.2	23.0	23.2	23.4	23.5

<sup>25</sup> Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

<sup>26</sup> The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

<sup>27</sup> A plus sign means deficit-reducing one-off measures

<sup>28</sup> P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

<sup>29</sup> Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

**Table 2a (continued)**

Table 2a (continued)

	ESA code	Year 2022	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
		Level (bn NCU)	% of GDP				
Selected components of expenditures							
17. Collective consumption	P32	177.7	8.3	8.6	8.9	8.7	8.7
18. Total social transfers	D62 + D63	246.8	11.5	11.0	11.5	11.5	11.4
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	246.8	11.5	11.0	11.5	11.5	11.4
19 = 9. Interest expenditure	EDP.D41	39.6	1.9	2.2	2.7	2.8	3.1
20. Subsidies	D3	1.7	0.1	0.1	0.1	0.1	0.1
21. Gross fixed capital formation	P51	131.5	6.2	6.8	6.3	5.8	5.7
22. Other (22 = 23-(17+18+19+20+21) <sup>30</sup>		53.7	2.5	1.5	0.8	0.9	0.9
23 = 7. Total expenditures	TE <sup>31</sup>	651.0	30.4	30.2	30.3	29.8	29.9
p.m. Compensation of public sector employees	D1	105.8	4.9	5.0	5.5	5.9	5.7

<sup>30</sup> D.29+D4 (other than D.41) + D.5+D.7+D.9+P.52+P.53+K.2+D.8

<sup>31</sup> Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

**Table 2b: General government budgetary prospects**

	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
bn NCU						
<b>Net lending (B9) by sub-sectors</b>						
1. General government	S13	-78.2	-51.1	-61.3	-52.6	-57.7
2. Central government	S1311	34.4	73.3	51.5	75.3	76.1
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-24.9	-31.0	-35.4	-40.7	-41.6
5. Social security funds	S1314	-87.7	-93.4	-77.5	-87.2	-92.3
<b>General government (S13)</b>						
6. Total revenue	TR	572.8	647.2	676.1	709.8	747.9
7. Total expenditure[1]	TE	651.0	698.3	737.4	762.4	805.6
8. Net borrowing/lending	EDP.B 9	-78.2	-51.1	-61.3	-52.6	-57.7
9. Interest expenditure	EDP.D 41 incl. FISIM	39.6	51.1	66.2	72.7	83.0
10. Primary balance[2]		-38.6	0.1	4.9	20.1	25.2
11. One-off and other temporary measures [3]		:	:	:	:	:
<b>Components of revenues</b>						
12. Total taxes (12 = 12a+12b+12c)		352.2	388.3	408.4	432.2	457.0
12a. Taxes on production and imports	D2	253.4	267.8	283.8	301.3	317.5
12b. Current taxes on income and wealth	D5	51.1	61.5	70.9	76.0	81.6
12c. Capital taxes	D91	47.7	59.0	53.7	54.9	57.9
13. Social contributions	D61	121.9	143.4	156.7	165.1	174.1
14. Property income	D4	0.1	0.1	0.3	0.3	0.3
15. Other (15 = 16-(12+13+14)) [4]		98.6	115.4	110.7	112.3	116.4
16 = 6. Total revenue	TR	572.8	647.2	676.1	709.8	747.9
p.m.: Tax burden (D2+D5+D61+D91- D995) [5]		474.1	531.7	565.1	597.2	631.2
<b>Selected components of expenditures</b>						
17. Collective consumption	P32	177.7	198.5	216.5	222.5	235.2
18. Total social transfers	D62 + D63	246.8	255.4	279.3	294.2	306.8
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	246.8	255.4	279.3	294.2	306.8

19 = 9. Interest expenditure (incl. FISIM)	EDP.D 41 + FISIM	39.6	51.1	66.2	72.7	83.0
20. Subsidies	D3	1.7	1.6	1.9	1.9	1.9
21. Gross fixed capital formation	P51	131.5	158.0	152.9	147.8	154.2
22. Other (22 = 23-(17+18+19+20+21)) [6]		53.7	33.7	20.6	23.4	24.5
23. Total expenditures	TE [1]	651.0	698.3	737.4	762.4	805.6
p.m. compensation of employees	D1	105.8	116.4	134.0	151.6	154.2

**Table 3: General government expenditure by function**

% of GDP	COFOG Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. General public services	1	4.4	5.1	5.1	4.8	4.7
2. Defence	2	0.7	1.1	1.4	1.4	1.5
3. Public order and safety	3	1.7	1.7	1.7	1.7	1.7
4. Economic affairs	4	5.0	3.9	3.1	3.4	3.6
5. Environmental protection	5	0.3	0.3	0.3	0.2	0.3
6. Housing and community amenities	6	2.7	2.4	1.7	1.6	1.6
7. Health	7	3.0	2.9	3.0	3.0	3.1
8. Recreation, culture and religion	8	0.5	0.4	0.4	0.3	0.4
9. Education	9	2.9	3.0	3.2	3.2	3.2
10. Social protection	10	9.3	8.9	9.8	9.6	9.6
11. Other expenditures - Contingency or Reserve Funds	11	0.0	0.5	0.6	0.5	0.4
11. Total expenditure (item 7 = 23 in Table 2)	TE	30.4	30.2	30.3	29.8	29.9



**Table 4: General government debt developments**

% of GDP	ESA code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Gross debt <sup>32</sup>		64.5	61.5	59.8	59.3	58.9
2. Change in gross debt ratio		-10.0	-3.0	-1.7	-0.5	-0.4
<b>Contributions to change in gross debt</b>						
3. Primary balance <sup>33</sup>		1.8	0.0	-0.2	-0.8	-0.9
4. Interest expenditure <sup>34</sup>	EDP D.41	1.9	2.2	2.7	2.8	3.1
5. Real growth effect		-3.1	-2.1	-2.2	-2.2	-2.3
6. Inflation effect		-6.4	-2.7	-0.9	-0.6	-0.6
7. Stock-flow adjustment		-4.2	-0.5	-1.2	0.3	0.4
of which:						
- Differences between cash and accruals <sup>35</sup>		0.0	0.0	0.0	0.0	0.0
- Net accumulation of financial assets <sup>36</sup>		0.0	0.0	0.0	0.0	0.0
of which:						
- Privatisation proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other <sup>37</sup>		0.0	0.0	0.0	0.0	0.0
p.m. implicit interest rate on debt <sup>38</sup>		2.9	3.7	4.7	5.0	5.5
<b>Other relevant variables</b>						
8. Liquid financial assets <sup>39</sup>		0.7	1.9	1.1	1.0	1.3
9. Net financial debt (9 = 1 – 8)		63.8	59.6	58.7	58.3	57.7

<sup>32</sup> As defined in Regulation 3605/93 (not an ESA concept).

<sup>33</sup> Cf. item 10 in Table 2.

<sup>34</sup> Cf. item 9 in Table 2.

<sup>35</sup> The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

<sup>36</sup> Liquid assets, assets on third countries, government-controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

<sup>37</sup> Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

<sup>38</sup> Proxied by interest expenditure divided by the debt level of the previous year.

<sup>39</sup> AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).

**Table 5: Cyclical developments**

% of GDP	ESA Code	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
1. Real GDP growth (%)	B1g	4.9	3.5	3.7	3.9	4.0
2. Net lending of general government	EDP.B.9	-3.7	-2.2	-2.5	-2.1	-2.1
3. Interest expenditure	EDP.D.41	1.9	2.2	2.7	2.8	3.1
4. One-off and other temporary measures <sup>40</sup>		:	:	:	:	:
5. Potential GDP growth (%) <sup>41</sup>		3.8	3.9	4.0	4.0	4.0
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		0.5	0.2	0.0	-0.1	-0.1
7. Cyclical budgetary component		0.2	0.1	0.0	0.0	0.0
8. Cyclically-adjusted balance (2-7)		-3.8	-2.3	-2.5	-2.0	-2.1
9. Cyclically-adjusted primary balance (8-3)		-2.0	-0.1	0.2	0.8	1.0
10. Structural balance (8-4)		:	:	:	:	:

**Table 6: Divergence from previous programme**

	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
<b>1. GDP growth (% points)</b>					
Previous programme	3.7	2.6	3.8	3.9	:
Current programme	4.9	3.5	3.7	3.9	4.0
Difference	1.2	0.8	0.0	0.0	:
<b>2. General government net lending (% of GDP)</b>					
Previous programme	-3.2	-2.6	-2.2	-2.2	:
Current programme	-3.7	-2.2	-2.5	-2.1	-2.1
Difference	-0.5	0.3	-0.3	0.1	:
<b>3. General government gross debt (% of GDP)</b>					
Previous programme	68.8	67.5	66.3	65.3	:
Current programme	64.5	61.5	59.8	59.3	58.9
Difference	-4.3	-6.1	-6.6	-6.0	:

<sup>40</sup> A plus sign means deficit-reducing one-off measures<sup>41</sup> Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

**Table 8: Basic assumptions on the external economic environment underlying the programme framework**

	Dimension	Year 2022	Year 2023	Year 2024	Year 2025	Year 2026
Short-term interest rate <sup>42</sup>	Annual average	0.3	3.4	3.7	3.1	3.1
Long-term interest rate	Annual average	1.1	2.5	2.8	2.8	2.8
USD/EUR exchange	Annual average	1.05	1.08	1.06	1.06	1.06
Nominal effective exchange rate	Annual average	-4.5	7.2	1.3	0	0
Exchange rate vis-à-vis the EUR	Annual average	119.0	109.5	109.5	109.5	109.5
Global GDP growth, excluding EU	Annual average	3.3	3.5	3.2	3.5	3.5
EU GDP growth	Annual average	3.4	0.6	1.3	1.7	1.7
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	4.3	1.2	3.4	3.7	3.7
Oil prices (Brent, USD/barrel)	Annual average	100.7	84.1	84.5	79.6	79.6

Source: European Economic Forecast (Autumn 2023)

**Table 9a: Social scoreboard indicators<sup>43</sup>**

	Data source	2018	2019	2020	2021	2022
<i>Equal opportunities</i>						
1. Adult participation in learning during the last 12 months, age <b>25-64</b>	Labour Force Survey	0,9	0,8	0,7	0,8	0,7
2. Share of early leavers from education and training, age <b>18-24</b>	Labour Force Survey	17,4	16,3	15,6	16,8	15,5
3. Share of population with basic overall digital skills or above, age <b>16-74</b>						
4. Young people neither in employment nor in education or training (NEET rate), age <b>15-29</b>	Labour Force Survey	28,6	26,6	27,9	26,1	25,2
5. Gender gap in employment rate, age <b>20-64</b>	Labour Force Survey	16,5	15,0	15,2	16,3	13,7
6. Income quintile share ratio - S80/S20	SILC	7.0	6.4	5.9	5.7	
<i>Working conditions</i>						

<sup>42</sup> If necessary, purely technical assumption.<sup>43</sup> Given the disparate availability of data and variety of definitions used for indicators, countries should use EUROSTAT data when available. In case of data from national or international sources, a footnote should be added for each indicator explaining how it is defined. **Please pay attention to the age brackets.** In case no data are available for an indicator, please see whether any data would be available for a similar indicator and explain so. For 2021, please add the data for the last quarter and indicate the quarter in brackets (e.g. (Q3)). If no data are available, please mark "N/A". For all indicators the values shall be inserted in the table, not the year-on-year change of the values.

7. Employment rate, age <b>20-64</b>	Labour Force Survey	65,6	67,1	66,3	66,3	70,4
8. Unemployment rate, age <b>15-74</b>	Labour Force Survey	12,3	11,5	11,7	11,5	10,9
9. Long-term unemployment rate, age <b>15-74</b>	Labour Force Survey	8,3	7,3	7,0	7,2	7,0
10. Gross disposable income of households in real terms, per capita	SILC	4.692	4.992	5.114	4.969	
<i>Social protection and inclusion</i>						
11. At-risk-of-poverty or social exclusion rate (AROPE)	SILC	49	46.2	43.4	43.9	
12. At-risk-of-poverty or social exclusion rate (AROPE) for children ( <b>0-17</b> )	SILC	52.4	49.4	48.4	48.3	
13. Impact of social transfers (other than pensions) on poverty reduction	SILC	11.0	11.9	12.1	12.7	
14. Disability employment gap, age <b>20-64</b>						
15. Housing cost overburden rate	SILC	6	5.5	3.8	3.5	
16. Children aged less than 3 years in formal childcare						
17. Self-reported unmet needs for medical care	SILC	21.5	21.2	15.3	15.4	

**Table 9b: Other selected indicators<sup>44</sup>**

	Data source	2018	2019	2020	2021	2022
Other social and healthcare indicators						
1. Public social protection expenditure in % of GDP	MFE, INSTAT	9.2	9.4	10.8	9.7	9.3
2. Public healthcare expenditure in % of GDP	MFE, INSTAT	2.99	3.03	3.13	3.42	2.98
3. Household out-of-pocket payments as a % of total health expenditure						
4. Percentage of population not covered by health insurance						

<sup>44</sup> Given the disparate availability of data and variety of definitions used for indicators, countries should use EUROSTAT data when available. In case of data from national or international sources, a footnote should be added for each indicator explaining how it is defined. In case no data are available for an indicator, please see whether any data would be available for a similar indicator and explain so. For 2021, please add the data for the last quarter and indicate the quarter in brackets (e.g. (Q3)). If no data are available, please mark "N/A". For all indicators the values shall be inserted in the table, not the year-on-year change of the values.

5. Ratio of doctors per 1000 inhabitants						
6. Ratio of nurses per 1000 inhabitants						
Environment						
7. Total environmental tax revenues as a share of total revenues from taxes and social contributions	MFE/ INSTAT	12.2	12.53	11.71	12.22	N/A
8. Greenhouse gas emissions per capita						
9. Generation of waste excluding major mineral wastes	Municipalities, INSTAT	1,523.256	1,201.590	1,173.730	955.790	893.829
Digital economy						
10. Percentage of households with broadband access (mobile and fixed)	INSTAT	80.7 %	82.2 %	83.3 %	88.3 %	96.5%
11. Share of total population using internet [NB: population 16-74]	INSTAT	62.6 %	68.6 %	72.2 %	79.3 %	82.6%
Energy						
12. Energy imports dependency (%)	INSTAT (Administrative data from NANR)	20.97	31.55	35.82	23.76	
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	INSTAT (Administrative data from NANR)	218.66	213.15	204.95	N/A	
14. Share of renewable energy sources (RES) in final energy consumption (%)	INSTAT (Administrative data from NANR)	36.57	38.04	45.01	41.39	
Transport						

15. Railway Network Density (meters of line per km <sup>2</sup> of land area)	Ministry of Infrastructure and Energy (MIE) and INSTAT calculations. The time series 2019-2020, it is revised using the latest data from MIE.	11.6	8.2	7.1	7.1	7.1
16. Motorization rate (Passenger cars per 1000 inhabitants)	The data for 2017-2018 are provided by Ministry of Infrastructure and Energy. From 2019, the data are provided by General Directory of Road Transport Services.	160.7	175.6	190.7	212.4	231.5
Agriculture						
17. Share of gross value added (Agriculture, Forestry and Fishing)	INSTAT	21.1	21.0	21.9	21.1	21.3
18. Share of employment (Agriculture, Forestry and Fishing)	Labour Force Survey	37,4	36,4	36,1	33,8	33,9
19. Utilised agricultural area (% of total land area)	MARD, INSTAT	40.8	40.8	40.5	39.523	39.499
Industry (except construction)						
20. Share of gross value added	INSTAT	14.1	13.8	12.8	12.9	13.4
21. Contribution to employment (% of total employment)	Labour Force Survey	12,8	13,1	13,5	13,8	14,3
Services						
22. Share of gross value added	INSTAT	54.6	55.4	55.1	55.0	54.2
23. Contribution to employment (% of total employment)	Labour Force Survey	42,9	43,5	45,7	46,9	44,2
Business Environment						

24. Rank in Global Competitiveness Index (Source: World Economic Forum)						
25. Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)						
Research, Development and Innovation						
26. R&D intensity of GDP (R&D expenditure as % of GDP)	Not available					
27. R&D expenditure – EUR per inhabitant	Not available					
Trade						
28. Export of goods and services (as % of GDP)	INSTAT BoA	31.6	31.3	22.7	31.3	37.4
29. Import of goods and services (as % of GDP)	INSTAT BoA	45.2	45.0	37.2	44.7	47.8
30. Trade balance (as % of GDP)	INSTAT BoA	-13.7	-13.7	-14.5	-13.4	-10.4

**Table 10a: Costing of structural reform measures (in EUR)**

## Human capital and social policies

## SR #1

Costing of reform measure 1.1: Increasing the quality and access to VET					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0

Costing of reform measure 1.2: Development and empowerment of digital competency of teachers					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	2,202,331.4	0	0	2,202,331.4
2025	0	1,615,806.7	0	0	1,615,806.7
2026	0	1,148,229.0	0	0	1,148,229.0

## SR #2

Costing of reform measure 2.1: Improving accessibility in social programs and healthcare					
Year	Salaries	Goods and	Subsidies &	Capital	Total

		services	transfers	expenditure	
2024	45,450.49	23,782.74	632,414.58	31,417.76	733,065.56
2025	42,646.75	23,330.07	647,603.46	31,417.76	744,998.03
2026	42,646.75	23,546.48	650,837.10	31,417.76	748,448.08

**Costing of reform measure 2.2: Improving the employability of the most vulnerable unemployed jobseekers**

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0

## Sustainability and Resilience

## SR #3

**Costing of reform measure 3.1: Promoting renewable energy and reducing the carbon footprint**

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0

**Costing of reform measure 3.2: Innovative structural interventions and technology innovations for renewable energy in irrigation and drainage pumping stations**

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	600,000	0	0	600,000
2025	0	1,523,000	0	0	1,523,000
2026	0	2,200,000	0	0	2,200,000

## SR #4

**Costing of reform measure 4.1: Development of the broadband infrastructure for the digital economy**

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0

**Costing of reform measure 4.2: Improving access to e-services, enhancing digital skills of users, and strengthening GovTech**

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	3.6	0	0	3.6
2025	0	6	0	0	6
2026	0	1.8	0	0	1.8

**Costing of reform measure 4.3: Rehabilitation of the Albanian railway network and interconnectivity for a sustainable transport**

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	1.793.879,41	6.843.871,39	30.890.334,96	37.734.206,35



2025	0	0	0	0	0
2026	0	0	0	0	0

## Competitiveness

## SR #5

Costing of reform measure 5.1: Deepening economic integration					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0

Costing of reform measure 5.2: Improving institutional, financial and human capacities for research and innovation					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	169,412	0	5,141,513	7,983,193	13,294,118
2025	169,412	0	5,561,681	7,983,193	13,714,286
2026	169,412	0	6,376,807	10,084,034	16,630,252

Costing of reform measure 5.3: Strengthening the fight against informality					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0

## SR #6

Costing of reform measure 6.1: Developing a legal framework to support innovative start-ups					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024					5.88
2025					5.88
2026					5.88

Costing of reform measure 6.2: Developing e-commerce, promotion of exports and internationalisation, increasing access to finance					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2024	0	0	0	0	0
2025	0	0	0	0	0
2026	0	0	0	0	0

Table 10b: Financing of structural reform measures

## Human capital and social policies

## SR #1

Financing of reform measure 1.1: Increasing the quality and access to VET								
Year	Central Budget	Local Budgets	Other national public	IPA funds	Other grants	Project loans	TBD	Total

			finance sources					
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

**Financing of reform measure 1.2: Development and empowerment of digital competency of teachers**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	2,202,331	0	0	0	0	0	0	2,202,331.4
2025	1,615,807	0	0	0	0	0	0	1,615,806.7
2026	1,148,229	0	0	0	0	0	0	1,148,229.0

## SR #2

**Financing of reform measure 2.1: Improving accessibility in social programs and healthcare**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	733,065.56	0	0	0				733,065.56
2025	744,998.03	0	0	0				744,998.03
2026	748,448.08	0	0	0				748,448.08

**Financing of reform measure 2.2: Improving the employability of the most vulnerable unemployed jobseekers**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

## Sustainability and Resilience

## SR #3

**Financing of reform measure 3.1: Promoting renewable energy and reducing the carbon footprint**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	0	2,352,941	0	0	7,647,059	4,117,647		14,117,647
2025	0	2,352,941	0	0		117,647,059		120,000,000
2026	0		0	0	1,200,980	8,137,255		9,338,235

**Financing of reform measure 3.2: Innovative Structural Interventions and Technology Innovations for Renewable Energy in Irrigation and Drainage Pumping Stations**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	0	0	0	0	0	600,000	0	600,000
2025	0	0	0	0	0	1,523,000	0	1,523,000
2026	0	0	0	0	0	2,200,000	0	2,200,000

## SR #4

**Financing of reform measure 4.1: Development of the broadband infrastructure for the digital economy**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

**Financing of reform measure 4.2: Improving access to e-services, enhancing digital skills of users, and strengthening GovTech**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	0	0	0	0	0	3.6	0	3.6
2025	0	0	0	0	0	6	0	6
2026	0	0	0	0	0	1.8	0	1.8

**Financing of reform measure 4.3: Rehabilitation of the Albanian railway network and interconnectivity for a sustainable transport**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	0	13.938.342,31	0	69.691.711,57	0	0	0	83.630.053,88
2025	0		0		0	0	0	0
2026	0		0		0	0	0	0

## Competitiveness

## SR #5

**Financing of reform measure 5.1: Deepening economic integration**

Year	Central Budget	Local Budgets	Other national public finance	IPA funds	Other grants	Project loans	TBD	Total

			sources					
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

**Financing of reform measure 5.2: Improving institutional, financial and human capacities for research and innovation**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	169,412	0	8,923,025		4,201,681	0	0	13,294,118
2025	169,412	0	9,343,193		4,201,681	0	0	13,714,286
2026	169,412	0	10,158,319		6,302,522	0	0	16,630,253

**Financing of reform measure 5.3: Strengthening the fight against informality**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

## SR #6

**Financing of reform measure 6.1: Developing a legal framework to support innovative start-ups**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	3.22			1		1.66		5.88
2025	3.22			1		1.66		5.88
2026	3.22			1		1.66		5.88

**Financing of reform measure 6.2: Developing e-commerce, promotion of exports and internationalisation, increasing access to finance**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2024	0	0	0	0	0	0	0	0
2025	0	0	0	0	0	0	0	0
2026	0	0	0	0	0	0	0	0

**Table 11: Reporting on the implementation of the structural reform measures of the ERP 2023-2025<sup>45</sup>**

<sup>45</sup> 0=no implementation; 1=implementation is being prepared; 2=initial steps have been taken; 3=implementation ongoing with some initial results; 4=implementation is advanced; 5=full implementation

<b>Reform measure 1: Increasing the quality and access to VET</b>		<b>Stage of reform implementation</b>
Activities planned for 2023	1.Reconstruction of schools and workshops, according to the forecast made in the Medium-Term Budget Project and the 2023 budget planning.	5
	2.Starting the implementation of “Strategy of Employment and Skills 2023-2030”, based on the Action Plan.	4
	3.Develop the competencies of 200 VET teachers and supporting staff as well as teacher trainers.	5
	4.The establishment of two other sectorial committees	4
Description of implementation and explanation if partial or no implementation	From the state budget for 2023, the reconstructions of school buildings, schools and vocational training departments are being completed as follows: - Tirana Hotel and Tourism School - 39.6 million ALL - "Nazmi Rushiti" Peshkopi School - 145 million ALL - "Herman Gmeiner" IT School, Tirana - 32.5 million ALL - School "Beqir Çela" Durrës - 129.6 million ALL	
	With the approval of the National Employment and Skills Strategy 2023-2030, the Action Plan for its implementation as well as the Youth Guarantee Implementation Plan 2023-2024, through DCM No. 173, dated 24.03.2023, this Strategy has already started to be implemented.	
	During the period January-September 2023, 92 teachers were trained in the framework of initial qualification and continued qualification. Meanwhile, during this period, 135 people were trained, who are coordinators of Development Units in vocational schools.	
	In addition to the ICT Sectoral Committee, the Hospitality and Tourism Sectoral Committee has also been created and work has to be done to determine the relevant field for the creation of the next Sectoral Committee.	

<b>Reform measure 2: Improving the employability of the most vulnerable unemployed jobseekers</b>		<b>Stage of reform implementation</b>
Activities planned for 2023	The implementation of employment promotion programs focusing on the most vulnerable ones;	
	Pilot the Youth Guarantee Scheme targeting youth unemployment especially NEET	
	The implementation of employment promotion programs aimed at supporting the most vulnerable groups and activation and the number of registered unemployed jobseekers benefiting from employment promotion programs is targeted to reach 7.2% of the registered unemployed jobseekers.	
	Implementation of the agreements signed with municipalities in uncovered areas.	
	Improve the quality and effectiveness of institutions and services of the labour market through continuous training of staff, and measure the customer satisfaction for the employment services.	
	Development and publication of information and quality analysis of the labour market and improvement of public relations.	
	Conduct an assessment to measure the impact of the implemented Employment Promotion.	
Description of implementation		

and explanation if partial or no implementation		
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<b>Reform measure 3: Improving institutional, financial and human capacities for research and innovation</b>		<b>Stage of reform implementation</b>
Activities planned for 2023	Drafting of the strategic and legal framework in the field of science, innovation and technology.	4
	Development of a clear methodology for the creation of funds for the transfer of Research, Innovation and Technology.	0
	Increase and strengthen the human and infrastructural capacities of scientific research and innovation through support and funding, promoting the quadruple helix model and the principle of open science.	5
	Production of reliable statistics and data on science and technology, including the indicator on gross domestic expenditure on Research and Innovation (NASRI and Institute of Statistics).	1
Description of implementation and explanation if partial or no implementation	<ul style="list-style-type: none"> <li>- National Strategy for Research, Science and Innovation 2023-2030 is approved (at the meeting on September 20, 2023<sup>46</sup>, the Council of Ministers decided to approve the "National Strategy for Research, Science and Innovation 2023-2030 and action plan for its implementation". DCM enters into force after publication in the "Official Gazette").</li> <li>- Smart Specialization Strategy will be a priority of the Government of Albania and an important instrument for directing future investments in the priority areas and in developing a knowledge based society. Albanian S3 strategy is foreseen to be finalised within the first semester 2024. Considering the importance of this process for the Albanian Government and the fact that it covers a wide number of sectors, through approval of Executive Order No. 17 dated 07.02 .2023, S3 process is coordinated by the Deputy Prime Minister leading the S3 Inter-Ministerial Committee and assisted by the National S3 Team. All the foreseen events for the EDP phase (32 in total, 29 national events and 3 regional bilateral workshop with neighbour countries, Kosovo, Montenegro, North Macedonia) has been concluded in July 2023. The discussions during the events was facilitated by national S3 experts that also helped to collect the inputs. The EDP process has been highly appreciated by the quadruple helix actors and seen as a very important step for cross-sectoral cooperation and networking with key actors in the identified priority areas. Based on this experience this bottom up approach will be the main methodology of stakeholders' consultation for the most important strategies and policy documents in Albania in the future. A final EDP closing event is foreseen in September/October 2023 (date TBD) where it is foreseen a presentation for all the stakeholders involved of all findings of the EDP phase and of the next steps to be followed till the finalization of the S3. The report of the EDP phase is being finalised and the identification of the final priority areas based on the results of the EDP consultations is in process.</li> <li>- New law on Scientific Research in Republic of Albania (work in progress) is foreseen to be finalised within the end of 2023.</li> </ul>	

<sup>46</sup> <https://www.kryeministria.al/newsroom/47343-2/>

	Development of a clear methodology for the creation of funds for the transfer of Research, Innovation and Technology is postponed for 2025. Completion of the necessary legal basis for the international transfer of technologies and strengthening the capacities of HEIs for international technology transfer, in new "National Strategy for Research, Science and Innovation 2023-2030" is foreseen to start in 2025. It is intended that by 2025 the process of setting up centres in public HEIs will be finished.	
	NASRI has financed 3,213,737 Euros in Scientific Research during 2023, of which EUR 1,900,409 for Research Infrastructure, EUR 1,096,991 for R & D projects, EUR 167,028 for academia – business projects and EUR 49,310 for bilateral projects.	
	Albania is part of "European Innovation Scoreboard, 2022" report for the first time, providing a comparative analysis of innovation performance in EU countries, other European countries and Western Balkan countries. Production of reliable statistics and data on science and technology, including the indicator on gross domestic expenditure on Research and Innovation still remains a big challenge for Albania. During 2024, in cooperation with INSTAT, development of the capacities of the staff of MES, NASRI and other research institutes for the collection, analysis and standardized reporting of statistics for scientific research according to international standards (Eurostat, OECD), is planned to start. Drawing up performance indicators on scientific research for the purpose of comparison at the European and international level is foreseen to start during 2025.	

<b>Reform measure 4: Increasing the coverage and adequacy of social protection and health insurance to reduce the share of the population at risk of poverty</b>		<b>Stage of reform implementation</b>
Activities planned for 2023	Drafting of the new Social Protection Strategy.	3
	Support the employment and social reintegration of beneficiaries of NE.	5
	Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises.	2
	Continuing supporting the existing social services and set up 10 new integrated community-based social services, in partnership with NGO-s, focusing on home assistance service within the frame of Social Fund.	5
	Transformation of 2 (two) public child residential institutions in alternative care "child and family hub" in Korça and Vlora.	3
	Expand the implementation of the bio-psycho-social evaluation scheme to support with persons with disabilities with combined cash support and social care in other regions.	5
Description of implementation and explanation if partial or no implementation	The first draft on developing the vision and the main objectives and sub objectives is been drafted.	
	Two enterprises have submitted the application for the finance, but the project are not complete and they are requested to update some documents.	
	An evaluation process of the residential institutions has been undertaken in order to plan the transformation (transition) process in Korça and Vlora, aiming at accurate assessment of the following components: the situation of the children placed in these institutions and the relevant plans for finding new placement (an on-going	



	evaluation process); Existing human resources their qualifications, competencies and willingness to accept change; Existing infrastructure of institutions; Services provided to children in public care services institutions; Existing community-based services.	

Reform measure 5: Increasing access to health care		Stage of reform implementation
Activities planned for 2023	Financing of health care services (in all three tiers of the health system primary, secondary and tertiary)	
	Increase the cost – efficiency of the Reimbursement Drug List	
	Approving the revised national legislation on drugs and pharmaceutical services.	
	Approving the revised national legislation on narcotic drugs and psychotropic substances	
	Continuing the financing of 12 health care packages offered in public and private hospitals and increasing the number of beneficiaries by 5% on a yearly basis.	
	Continuing financing of preventive screening programs and increasing by up to 10% the number of beneficiaries.	
	Developing and approving the legal mechanisms on dedicated policies for our health care professionals foresees dual practice and wage classification as per performance indicators.	
	Approving of the National Hospital Program that aims the transformation of the hospital system in Albania in order to remodel hospital services provision, distribution of human and financial resources according to demographic and epidemiological structure change in the last 30 years.	
Description of implementation and explanation if partial or no implementation		

Reform measure 06: Strengthening the fight against informality		Reform implementation phase
Activities planned for 2023	1. Implementation of new and improved risk criteria for identifying non-compliant taxpayers.	Several new risk rules that are part of the Fiscalization Module have been certified as functional. New criteria have been added for identifying defaulting taxpayers, which are approved by the Risk Committee.
	2. Full integration of systems (c@ts and fiscalization) so that the research and analysis work of the Tax Administration is more efficient.	Integration of systems (C@ts and Fiscalization) where it is worth mentioning: Transfer of sales and purchase books automatically prefilled by Fiscalization to C@ts. But work is still being done to also prefill the VAT declaration and the individual declaration of personal income. Exchange of information from C@ts to Fiscalization (general data of the register of taxpayers, number of employees, data of VAT declarations, etc.)
	3. Implementation of a compliance program for the wealthiest individuals. The 3-	Implementation of a compliance program for the wealthiest individuals. The 3-year compliance strategy for the wealthiest individuals has been drawn up, which was



	<p>year compliance strategy for the wealthiest individuals has been drawn up, which was approved by decision No 30. 02.06.2022.</p> <p>approved by decision NR 30. 02.06.2022.</p> <p>Controls/Audits were carried out on 33 individuals who are part of the construction, trade and insurance companies. From the verifications, 33 employees were found who were declared by the employers and for 16 employees the value of liabilities/findings resulted in the value of 20,600 euros (1,288 euros/employee).</p> <p>The plan for the implementation of the compliance strategy for individuals with high incomes was also approved by Decision No. 4 d 03.05.2023 of the Risk Committee.</p>
	<p>4. Implementation of annual sectoral plans based on plans according to industries, sectors, geographic distribution, tax type and phenomena based on the implementation and improvement of modules (Fiscalization and C@ts).</p> <p>During the year 2023, the sectoral tourism plan and the plan for expanding the base of VAT taxpayers.</p> <p>In the framework of the fight against informality in the labor market, a working group has been created regarding the identification and problems of the average salary at the Regional Directorate level. Increasing the average salary is a government priority and GDT, together with the Regional Directorates, is maximally engaged in identifying any under-declaration or correct under-declaration of the salary and in promoting the increase of the average salary.</p> <p>During 2023, GDT has had an increased focus on economic entities, identifying any obligations in social and health contributions and tracking and investigating possible schemes set up by these entities for non-payment of social and health insurance contributions.</p>
	<p>Detection of global undeclared income by taxpayers and individuals, through the automatic exchange of information on financial accounts, according to the OECD Common Reporting Standard. This information will be used by the structures of the Tax Administration in the implementation of their duties and will be able to be used more efficiently after the trainings that will be conducted by experts of the Swedish Tax Administration.</p>
	<p>Integration and use of data from third parties in <i>the Data Warehouse</i> of the tax administration, {national authorities of services (water, electricity), vehicle registration, municipalities, etc.} Taking into consideration the VAT gap as well as the inconsistencies of data, data collection and their good administration, the construction of a <i>Data Warehouse</i> (as one of the recommendations of the IMF) with centralized data, managed by only one source, becomes a big step forward in relation to with the fight against informality.</p>
	<p>Construction of the Register of Taxpayers' Assets (movable &amp; immovable), with the aim of real assessment of taxpayers' assets, building a system for verification and tracking of taxpayers' income, full control of payments made on property taxes. This process will go through 3 stages: a. Creation of an Asset Register with the relevant attributes; b. Data exchange with web - service; c. Data analysis with <i>BI reports</i>.</p>
Description of implementation and explanation of whether implementation is partial or not implemented	<p><b>Clarifications for point 6:</b></p> <p>Currently, the initial steps for this activity have been taken, as data from the fiscalization system, the E-tax system and information on customs declarations from ASYCUDA through the E-tax system, is received. It is still not possible to automatically exchange data with third parties (GDRTS, EPDSO, Municipality of Tirana, Water Utility, etc.) since it has not been possible to set up web services for the exchange of information. The information is obtained manually from these institutions/third parties.</p> <p><b>Clarifications for point 7:</b></p> <p>Some of the reasons for the partial implementation of the Register of Taxpayers' Assets are:</p> <ol style="list-style-type: none"> <li>1. Lack of web services from third parties (Cadaster, GDRTS, Civil Aviation, Maritime Authority, etc.);</li> <li>2. The information that is obtained manually is unstructured;</li> <li>3. Making changes in data exchange systems according to certain fields, in order to analyze</li> </ol>

	data with BI reports.
	The Individual Compliance Strategy has been approved in April 2022, and will begin to be implemented for all Individuals who declare DIVA and are part of the Large Taxpayers Office. For individuals who are under the jurisdiction of the Regional Directorates, the inspector from the desk audit office will be the one who will be included in the process.
	The implementation of the measures of point 2 has advanced and the results are expected to be analyzed. Regarding point 3, dealing with fiscal evasion, fiscal fraud and informality, using real-time monitoring of financial transactions between taxpayers, according to the newly implemented fiscalization system, the registration of taxpayers in fiscalization has almost been completed and the processing of data that is generated is in process. Also, regarding the implementation of the annual sectoral plans based on the annual compliance plans according to the risk management methodology, the process has advanced and the results are expected to be analyzed.
	The VAT stock at the end of the 9th month of 2022 is 0.

Reform measure 7: Developing a legal framework to support innovative start-ups		Stage of reform implementation
Activities planned for 2023	Creation of the Start-up Albania agency	5
	Approval of changes in the law "On the support and development of new businesses, start-ups.	5
	In collaboration with the NAIS, work on generating automatic start-up and facilitator passports.	3
Description of implementation and explanation if partial or no implementation	The government has approved the decision to create the Albanian Start-up Agency, which will play a central role in supporting start-ups and building the innovation ecosystem. His responsibilities will range from managing state grant schemes, building ecosystem capacity to serve start-ups and entrepreneurs, harmonizing stakeholder interventions and implementing strategic measures related to the development of the overall business environment. start-up creation activities. The agency will review and propose legislative improvements to the ecosystem governance framework and collaborative activities with more mature start-up ecosystems from other parts of the world	

Reform measure 8: Support measures to MSMEs		Stage of reform implementation
Activities planned for 2023	1. Development of export strategy (key initiatives, actions)	4
	- Competition-based value chain upgrading initiative	0
	- Regular training needs assessments	5
	- Access to Finance	0
	- Draft the annual SME state budget grant schemes	3
	- Monitor implementation progress of the objectives and measures of BIDS 2021-2027	4
Description of implementation and explanation if partial or no implementation	1. Development of export strategy (key initiatives, actions).  MoFE is working on drafting the Export Program 2024-2027 with the collaboration and strong consultation with private and public stakeholders. MoFE has already finalised a draft export program and has identified the key potential sectors, obstacles and opportunities for further developments. Actually the MoFE is also working on drafting the law "On investments in the Republic of Albania", which	

	also considers the revision of law no. 10303, dated 15.7.2010 "On the creation and manner of organization and operation of the Albanian Investment Development Agency (AIDA)" that should be the Agency that will implement the export program. For this purpose the finalization and final approval of the export program should be done after the approval of the investment law.	
	2. Competition-based value chain upgrading initiative  Lack of donors support	
	3. Regular training needs assessments  During 2023, AIDA has assessed the training needs through questionnaires. The first questionnaire focused on the training needs of Albanian MSME-s. The results of this questionnaire have been published on the AIDA website and can help relevant stakeholders in designing and implementing appropriate policies. A total of 116 entities filled the questionnaire. The results indicate that the highest training need is for project writing and project management, followed by the need for financial management and the need for marketing training. The final report of the main findings of this questionnaire has also been sent to the Ministry of Finance and Economy.  The second questionnaire focuses on the needs of Albanian women entrepreneurs. This questionnaire remains open to be filled in, and its results are expected to be published by the end of 2023.	
	4. Access to Finance  The support with access to finance to exports were not provided due the adoption of the export programme which is expected to be adopted soon and lack of budgeting in the state budget law for 2023	
	5. Draft the annual SME state budget grant schemes  Due to the limitations of state budget funds, this measure is foreseen to be tackled by the donors support. A Financial Agreement is drafted and endorsed by the Ministry of Finance and Economy and Proseed Project. Through the Financial Agreement, 450,052.70 euros will be managed by the Project Implementation Unit (PIU) ProSEED 2.0 in the MFE for grant support to businesses. Grants will be given for innovative entrepreneurs and existing start-ups with focus on the introduction of green, resource efficient and digital improvements. The initiative aims for the provision of up to 75 grants to entrepreneurs. PIU has been formally set up in the MoFE and it is working on the first call for the grants.	
	Monitor implementation progress of the objectives and measures of BIDS 2021-2027  The package for the adoption of the order of PM is drafted and ready to be sent to the Council of Ministers. The Order of PM aims to establish the monitoring inter institutional working group which will report systematically the implementation of the measures according to the area of responsibility.	

<b>Reform measure 9: Public Strategic Investments</b>		<b>Stage of reform implementation</b>
Activities planned for 2023	Strengthen/develop capacities across government to identify, prepare and appraise public investment projects.	
	Develop the methodology on the allocation/re allocation of the budget funds for strategic investments.	
	Strengthen/develop the capacities across government institutions to rise fund absorption for strategic investments.	
	Implementation of the new DCM On public investment management procedures.	
	Improve the process of inclusion of public investments within MTBP cycle.	
	Develop the methodology for the preparation, approval, update, monitor, and implementation of the National Single Project Pipeline (NSPP).	4
	Complete the full Database of monitored contracts and follow-up the process of monitoring the concession/PPP contracts.	3
	Develop methodology regarding the evaluation of new concession/PPP projects.	2
Description of implementation and explanation if partial or no implementation		
	With the approval of DCM No. 887, dated 27/12/2022, all the necessary steps have been taken for the approval of sub-laws. As well the NSPP has been prepared, updated and approved as an integral part of "Priority Policies Document 2024-2026 ". Although there is a methodology on place, updates are still being made for its standardization and finalization, in order to reflect all the issues that have been faced during the first cycle of NSPP implementation. The methodology is expected to be finalized by the end of 2023.	
	A full database is Created and the follow up of the contracts monitoring is ongoing	
	Ministry of Finance and Economy started to work for the new Law which will replace the Law nr 125/2013 "On Concessions and Private Public Partnership PPP". The development of methodology regarding the evaluation of new concession/PPP will be part of the new LAW	

<b>Reform measure 10: Strengthening managerial accountability in general government units</b>		<b>Stage of reform implementation</b>
Activities planned for 2023	*Making available an improved regulatory framework for the implementation of procedures for the development of an effective system of managerial accountability and the facilitation of mechanisms for the purpose of good management of public funds.	3
	**Continuous evaluation of the quality of the internal control system in order to conduct an in-depth analysis of the functioning of the internal control elements, identify the main problems and provide concrete recommendations for addressing them.	4
	***Providing technical assistance for the implementation in practice of the basic mechanisms of managerial accountability.	3

	*****Capacity building in order to inform on the main concepts and instruments of managerial accountability and raise awareness on the benefits of its implementation.	5
Description of implementation and explanation if partial or no implementation	*The MFC manual and the instruction for the annual report and the declaration for the internal control system are in the drafting stage. The FMC manual have been consulted with the local finance project.	
	**11 quality assessments out of 20 have been carried out, while their finalization is foreseen within the year 2023 according to the annual approved plan.	
	***The quality evaluations for internal control have been carried out in several institutions according to the annual plan. During the quality evaluations, the staff was informed about the new legal changes in FMC law and was given information on how to use the necessary instruments for the implementation of the internal control system and also for managerial accountability. This is an ongoing process to provide technical assistance for the institutions with a low level of implementation of internal control system.	
	*****Fully completed	

Reform measure 11: Development of the broadband infrastructure for digital economy		Stage of reform implementation
Activities planned for 2023	Adoption of the new law on electronic communications, in line with the new European Electronic Communication Code approved by the EU in 2018 – within Q4 -2023	4
	Development of broadband ATLAS project	4
	The pilot project for development of broadband infrastructure in North and South Albania (rural and remote/tourism areas in north and south part of Albania (Shkodër, Kukës, Tropojë, Dibër/Vlorë, Gjirokastër, Fier, Berat, Korçë)	1
	Release of the 700 MHz frequency band, Digital Dividend 2 (DD2) for the development of 5G (2023-2025)	3
Description of implementation and explanation if partial or no implementation	The draft law on electronic communication based on the new European Code of Electronic Communications was prepared. The draft law was consulted with a great number of stakeholders as well as with EC services. On July 7, 2022, it was held a consultative seminar in Tirana for the presentation of the first draft of the regulatory impact assessment (RIA). Three roundtables organised with public institutions and market players. The draft was revised based on the comments and suggestions received. The new law is expected to be approved within Q4 – 2023.	
	Development of broadband ATLAS project has started in February 2022; on July 3 a seminar was held in Tirana with many actors. During this workshop, IPF9 experts made a presentation of the EU standard experience for the broadband atlas as well as the proposals for the development of the broadband atlas of Albania. The project was completed in December 2022. It will continue with the implementation of the recommendations for the development of the Broadband Atlas in 2023-2024;	
	Initially launched as two separate projects, approved ToRs, ESIA and TD; TA has started in October 2021; on 31.12.2021, the "Inception Report" was submitted, where the merger of the two "South and North" projects was recommended, reviewing the total value of the grant as well as the scope of the included activities that would go	

	through a written approval procedure. GAFF reviewed. Implementation is currently on hold, pending approval from the WBIF.	
	Regarding the release of the 700 MHz frequency band, Digital Dividend 2 (DD2), the process is still ongoing. For the time being the new frequency plan for releasing DD2 was adopted, the migration strategy and the estimation of costs for migration was prepared from the EU experts through the technical assistance project “ <i>Support the Ministry of Infrastructure and Energy to implement the new European Electronic Communications Code &amp; Open Internet</i> ”.	

Reform measure 12: Deepening Economic integration		Stage of reform implementation
Activities planned for 2023	Possible Customs Union with Kosovo.	
	Implementation of the Regional Action Plan for the establishment of the CRM in cooperation with the CEFTA Parties, by finalizing the measures as in Annex 1 that are under implementation and the new measures foreseen for 2023 at CRM.	
	Implementation of the Action Plan 2021-2023 of the NCTF.	
	Implementation of Open Balkan Initiative.	
	Design and installation of a National Single window.	
	New Computerized Transit System – NCTS.	
	Improvement of Border crossing point – Qafe Thane-Kjasafan.	
	Development of the customs IT system to put the pre-arrival declaration into operation.	
	Implementation of mutual recognition of AEOS protocols with Serbia and North Macedonia.	
Description of implementation and explanation if partial or no implementation		

Reform measure 13: Reducing environmental pollution and promoting the decarbonisation of energy-intensive industries		Stage of reform implementation
Activities planned for 2023	Approval of the law on F-Gases.	5
	Awareness raising on the F gases Phase Down incentive.	5
	Introduce licencing scheme for F gas undertakings.	5
	Prepare Action plan for F-gases quota allocation Phase Down.	1
Description of implementation and explanation if partial or no implementation		
	<p>Law. no 2/2023 “on fluorinated gases” was approved by the parliament on 26.1.2023.</p> <p>Several awareness raising activities and consultations were held with the undertakings that import F-gases or equipments that function from this gases.</p> <p>During these meetings the Ministry of Tourism and Environment presented the draft decision of the Council of Ministers "For the approval of the necessary documentation for the equipment of the undertakings with the license III.3"</p> <p>The draft decision of the Council of Ministers for the approval of the allocation of the annual import quotas of hydrofluorocarbons and/or</p>	

	equipment pre-filled with hydrofluorocarbons, as well as the criteria for the allocation of quotas” is at initial stage.	
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<b>Reform measure 14: Energy security through the promotion of renewable energy sources and energy efficiency improvements</b>		<b>Stage of reform implementation</b>
Activities planned for 2023	Liberalisation of the electricity market (consumers in the free market).	
	Security of supply	
	Operation of the Albanian Power Exchange	
	Feasibility study for the installation of Charging Towers for electric cars in the Republic of Albania.	5
	Implementation project audit and implementation of energy efficiency measures in some public schools in the city of Dibra.	4
Description of implementation and explanation if partial or no implementation	Implementation project audit and implementation of energy efficiency measures in some public schools in the city of Dibra has proceed. Actually, the contract procurement agreement was signed, and the project will be fully completed until the end of the year 2023.	
	From 1 January 2022, 7,358 customers connected on 20/10/6 kV entered in the liberalised market and have the right to find their own suppliers. If they do not find another supplier, based on the provisions of the Law No 43/2015 “On power sector”, as amended, they will continue to be supplied by FSHU as a last resort supplier for a period of two years	
	<p><b>- 400 kV Interconnection line Elbasani (Albania) – Bitola (Republic of North Macedonia)</b></p> <p>The 400 kV Interconnection line Elbasan (Albania) – Bitola (North Macedonia) is expected to improve security of supply and overall operation of the energy system of Albania, as well as positively influence the regional market and its coupling.</p> <p>Concerning the construction of a 400kV interconnection line between Fier in Albania and the North Macedonia border, work started in 21 August 2023, with completion scheduled for the third quarter of 2024</p>	
	The Albanian Power Exchange was established in October 2020, and it held its first day-ahead auction for the delivery of electricity as of 12 April 2023.	

<b>Reform measure 15: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana</b>		<b>Stage of reform implementation</b>
Activities planned for 2023	<p>The activities carried out for this main project, during the reporting period are civil works activities, digging, dismantling of existing route, construction works with bridges, culverts, retaining walls, etc. The purchases of electro-mechanical materials (signalling and telecom), including railway components (ballast, sleepers, rails, switches, etc.) are also in the process.</p> <p>Rehabilitation of works will be carried out in the main section from Vora-Sukthi-Shkozet (Durrës) and section 2 Vora- Tirana PTT and construction of the new railway line up to Tirana International Airport will go on. The Project is foreseen to be finished in 30 Months from its start (01.10.2022), handed over at the end of the reporting period (HSH).</p>	4



	The general procurement notice under the ToRs in preparation for Vore-Hani I Hotit project shall be announced in cooperation with the donors (EBRD and EIB), which has already promoted the update of the ESIA plan under the modifications done.	1
Description of implementation and explanation if partial or no implementation	- Review of charging/tariff methodology and asset management plan the HSH/MIE Workshops on TAC and the AMP railway maintenance program was completed according to strategy M&R with the AMP plan approved. International financial reporting standards IRFS / MIS system for international reporting financial system BDO, MIE/HSH Workshops and certified for the attendance.	5
	- Equal opportunities in the rail sector in Albania and assessment of skills needs GADC, EBRD, MIE, HSH Workshops and continuation in the data collection on gender equality, performance surveys.	5
	- Distribution of e-freight in the Western Balkans, implementation of Regulation (EU) 2020/1056 on electronic information on the transport of goods, the MIE, HSH, ARA, ANALTIR, UICCAL et al shall be in operation phase under implementing plan and programs	5
	- Technical assistance for the transport strategy sector – RAIL, Maritime (IPA, EUIF Instrument), 2027 of EU IPA III MIE, HSH, DPD Ongoing status through the IPA III Agreement Contribution 1,900,000.00. Railway 1,500,000.00. EU Maritime Contribution 400,000.00. National co-financing 20%, shall give a boost to the project implementing with the entity deriving from the rail strategy	4
	- The DoCM no. 301, dated 17.05.2023 “On the approval in principle of the High-level Understanding between Republic of Albania and European Union on indicative maps of the trans-European transport network in Albania is approved, shall be taken into consideration.	5
	- The implementation of the 5-year Action Plan for Strengthening Capacities for the Management of Railway Infrastructure Projects in Albania is currently supported by the European Investment Bank (EIB), European Bank for Reconstruction and Development (EBRD) in the World Bank Group, the WBIF, during year 2023.	5
	- Civil society skills and training and capacity building for railways HBMC, EBRD, HSH/MIE Workshops with the community and local bodies, and the 4 universities, at finalisation are TA of the Project. This aims to support the transition of the region into a digital economy and bring the benefits of the digital transformation, such as faster economic growth, more jobs, and better rail transport services.	5
	- Consultancy Services to Support the Implementation of the EU Acquis in the railway sector through the creation and capacity building of the necessary railway authorities and systems, in a total of 1.5 million Euros, within the framework of the Facilitation of Integration in the European Union 2022, to start along Y 2023-2024.	4
	- Development through efficient and best integrated planning and the review of strategic policies is aimed at through better programming of the Midterm budget, such as the budgeting program. Planning and supervision of public investments that affect railway activities, has the impact of evaluating the management of public finances (MFP) in railways in Albania, that are well-administered, managed and internal control respectively.	5
	- In the dual approach digital transformation and green transition, Technical assistance for the preparation of the ITS strategy for Albania (rail and sea transport), MIE, HSH, ADP, DPD, STII, RID Etc. The ITS 08 -Presentation of Results for railways and sea 3 and	5



	4 in the MIE dated 16.06.2023 thematic meeting project is ongoing, to be provided with the expected impacts in the Project Area Rehabilitation of Durres-Tirana-TIA.	
	- Harmotrack project (Harmonization of the description and assessment of the quality of the railway line)/ HARMOTRACK, MIE, DIH, HSH/MIE, UAMD Workshops continue to work packages on the establishment of the safety management system, shall do the monitoring of the rail track geometry maintenance phases under the operation phase as in the art 3 of the law on the project agreement.	4
	- Assessment of the railway market in the Western Balkans in terms of capacities, policies, economic and technical level of development of the freight and passenger transport segments, data collection for market monitoring railway of the Western Balkans according to Regulation (EU) 2015/1100 Transport Community, represented by the MIE, HSH it consisted of collecting data on rail transport and the TDG being conducted with questionnaires to get opinions / suggestions from interested parties such as Implementing agency.	4
	The newest Decision of the Council of Ministers no. 447, dated 26.7.2023 for the approval of the Document of Priority Policies 2024-2026, with medium and long-term reforms of the Albanian government and short-term / medium-term priorities, inter alia, incl.: (I) Project no. 33 Construction of the railway line from the Tirana Public Transport Terminal (TTP) to a new railway station in Tirana (Lot 1) and the connection to the Border Line (BRL) with the Middle Ring of Tirana (Lot 2) MIE/HSH/Railway € 20,000,000 Matured under the SDG 9.1. Code 04.5; (ii) Listed no. 34 Electrification of the railway line Tirana - Durrës and the connection with Rinas Airport MIE/ HSH Transport/Rail transport € 20,550,000 Matured under the SDG 9.2, code 04.5; and (iii) Listed no. 48 Electrification of the railway line Vora – Hani i Hoti, MIE/ HSH Transport/Rail transport € 74,400,000 Matured under the SDG 9.1, code 04.5.	4

Reform measure 16: Better marine and maritime governance and services		Stage of reform implementation
Activities planned for 2023	Certification of maritime tourism operators. (MTE)	
	Promotion of maritime tourism sector. (MTE)	
	Increase human resource capacities. (MTE, GDM)	
Description of implementation and explanation if partial or no implementation		

Reform measure 17: Support the implementation of pre-university curricular reform and teacher training		Stage of reform implementation
Activities planned for 2023	Training of 1000 second grade teachers and monitoring the continuity of work for the implementation of the English language program.	
	Completion of the harmonization process of the initial training curricula of HEI teachers based on the requirements of the Law on Higher Education as well as with the curriculum offered in pre-university education.	

	Discussion and finalization of the draft of the teacher's career system based on the evaluation of the teacher's performance in the school.	
	Strengthening human capacities in the curriculum sectors at the level of Local Education Offices.	
	Training of 700 leaders of lower secondary education professional networks on the Arts and Crafts education development guide also the guide for career orientation in basic education.	
	Drafting and approval of the framework for evaluating the quality of services in preschool education.	
	Designing the new program and training 100 teachers in the implementation of the ICT program for the first and second grade.	
	Implementation of TALIS 2024 for piloting survey instruments.	
Description of implementation and explanation if partial or no implementation	Currently, 1444 teachers have been trained for the implementation of the English language program in the first and second grades, for the implementation of combined education in the English language in the first and second grades, as well as for effective techniques of teaching the English language to children in the first and the second grades.	5
	The preparation of the documents for the harmonization process of the initial training curricula of HEI teachers based on the requirements of the Law on Higher Education as well as with the curriculum offered in pre-university education has been completed. It is now the autonomy of the universities to implement these documents	4
	We are in the phase of preparing the document for the evaluation criteria of the teacher's performance	3
	Implementation of the National Program "Art, craft, sport" in the 200 schools included in the program. 250 coordinators from local educational units and schools have been trained so far. Training continues	4
	Drafting and approval of the framework for evaluating the quality of services in preschool education. It is under the process the draft.	3
	Designing the new program and training 100 teachers in the implementation of the ICT program for the first and second grade. It is done.	5
	Implementation of TALIS 2024 for piloting survey instruments. It is done according to the requirements of TALIS 2024	5

Reform measure 18: Inclusiveness and equality in education		Stage of reform implementation
Activities planned for 2023	Transforming of special schools to resource centres.	2
	Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students.	4
	Training of 61 ToT (heads of professional networks of assistant teachers) and assistant teachers.	5
	Training of professional networks of psycho-social service employees.	5
	The rationalization of the school network.	1
Description of implementation and	MES is working to transform Special Schools/institutes into resource centres supporting the education of children with disabilities and their social integration.	

explanation if partial or no implementation	With the approval of the last amendments to the law 69/2012 "On the pre-university education system in the Republic of Albania", it was continued with the establishment of the working group for the drafting of by-laws for the transformation of special schools into resource centres.	
	250 more assistant teachers for the students with disabilities have been employed in the mainstream schools during last year. We still have a shortage of assistant teachers who know sign language.	
	MES in collaboration with the agency for quality insurance in pre-university system carried out the training of 61 heads of professional networks in June 2023.	
	The number of children in collective classes transferred to better quality schools nearby has decreased by a small number, due to the lack of good coordination with the local government.	

Reform measure 19: Development and empowerment of digital competency of teachers		Stage of reform implementation
Activities planned for 2023	Design and approval of the information and communication technology program and its implementation in the second grade.	
	Training of ICT teachers for the implementation of the program in the second grade.	
	Drafting the supporting material for teachers to include coding skills and its implementation in 2023 in second grade.	
	Drafting the supporting material for students to include coding skills and its implementation in 2023 in second grade.	
	Training of 1200 professional network managers on "Students' Internet Safety".	
	Training of 1200 leaders of professional networks for the implementation of teachers' professional standards as well as for the use of ICT in the teaching process as part of combined education.	
	Investment in increasing the number of digital devices in schools.	
Description of implementation and explanation if partial or no implementation	It is approved the information and communication technology program and its implementation in the second grade.	5
	About 100 ICT teachers have been training for the implementation of the program in the second grade.	5
	The supportive manual for teaches have been drafting to include coding skills and its implementation in 2023 in second grade.	5
	The manual for students is drafting to include coding skills and its implementation in 2023 in second grade.	5
	The manual on "Students' Internet Safety" is preparing. 341 teachers are training for media and information education in formal education	3
	570 leaders of professional networks in upper secondary education and 510 teachers in primary education are training for the implementation of teachers' professional standards as well as for the use of ICT in the teaching process as part of combined education.	4
	Investment in increasing the number of digital devices in schools.	

## Annex II

Reform measures in ERP 2024-2026	Key structural challenges (EC assessment of ERP 2023-2025)	ERP Policy Guidance 2023	Enlargement Package 2023	Sustainable Development Goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA projects supporting this reform
Development of the broadband infrastructure for the digital economy			According to the latest report from EU Commission (Report 2023) Albania is moderately prepared in the field of digital transformation and media, prioritising as the most important measures to be taken: (i) complete the extension of the 112 emergency number to the whole country; (ii) adopt relevant legislation to implement the new European Electronic Communications Code and enact the law on cybersecurity to ensure closer alignment with the EU Directive on measures for a high common level of cybersecurity across the Union (NIS II); improve the collection of statistical data on digital performance	Digital connectivity is closely related with SDG goals, such as Goal 9 (Industry, Innovation and Infrastructure) and in particular with target 9.c to significantly increase access to information communication technologies (ICTs) and strive to provide universal and affordable access to internet in least development countries. Without digital infrastructure nowadays we are not able to deliver scalable solutions to SDG. ICTs are also linked with SDG17, target 17.8, with SDG 5, gender equality, target 5.b. the importance of ICT skills is also recognized under SDG 4 (Quality Education, target 4.b).	Digital infrastructure, the development and rollout of national broadband infrastructure in the six Western Balkans is one of the flagships of the Economic and Investment Plan for the Western Balkans adopted from the European Commission on 6th of October 2020. This plan has underlined that the need for investments for broadband networks in the Western Balkans is around 3.6 billion Euros. The European Green Deal appreciates that “digital technologies are a critical enabler for attaining the sustainability goals of the Green Deal in many different sectors”.	The objectives for broadband development are in line with the EU Digital Agenda, part of priorities of SEE-2020 Strategy under smart growth pillar, also part of the MAP-REA of WB6 endorsed in Trieste Summit on 12th of July 2017.	

			and digital competitiveness.				
Rehabilitation of the Albanian railway network and interconnectivity for a sustainable transport			<p>Under the enlargement perspective and strategy of WB6 package consist to Connectivity in transport focused on developing the infrastructure for road, rail and IWW in line with TENs priority upgrading and greening the rail infrastructure contribute to smart mobility solutions in line with the Green agenda.</p> <p>The priority is implementing through flagships (1, 2), and 3 of the EIP, focusing respectively on connecting north and south, east and west, and on connecting the coastal regions. According to Brussels, 12.10.2022, COM(2022) 528 final{ SWD(2022) 338 final }</p>	<p>The project applies the ITS with the ERTMS “1” with future “2” level, in the HSH railway interoperability. The construction and operational phase is under the TSIs, with European and international standards as in the UIC union international committee, where Albania is a member of the project applying the theme on transport market and the SRG to 2030, by railway. The project is incl. track monitoring system and the ECTS level “1”, with rehabilitation planned with the 30 Months work This strategic investment also benefits from EU funding under the European economic and investment plan and intermodal by port of Durres-to Rinas</p>	<p>Green Deal and the Smart and Sustainable Mobility, the top priority in this respect remains the revitalization of the rail network. The Regional Rail Strategy and its action plan aim at making rail a credible and sustainable alternative to road transport. Brussels, 6.10.2020, SWD (2020) 223 final, Guidelines for the Implementation of the Green Agenda for the Western Balkans. Accompanying the Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions. An Economic and Investment Plan for</p>	<p>Investing in broadband connectivity: Good digital infrastructure is essential for the rollout of broadband in the Western Balkans. Under the Western Balkan Investment Framework (WBIF), €30 million in EU grants made available to deploy broadband infrastructure in the region to mobilize strategic investments and foster socio-economic growth. A technical assistance package already approved for Albania under the WBIF as one of the first investment packages. Increasing cyber security, trust and digitalization of industry Digital Agenda for the WB6 for support capacity building in trust and security, digitalization of industry in the Western Balkans to</p>	<p>6 EU TAs are supporting the project under the IPA III support implementation of the acquis in the establishing and capacity building of required rail authorities and systems. An annual work program in the sense of Article 110(2) of Financial Regulation, annual and multiannual action plans measures in the sense of Article 8 of IPA III Regulation and Article 23 of Global Europe Regulation. Furthermore the EU TA, and aid on rail capacity raising for the Main IM and enforcement</p>

				airport and Albanian railways	the Western Balkans, {COM (2020) 641 final}. The project shall be operational in an electrified railway line with regard to the eco-friendly operations under the SEA, EIA, LAP, ESIA and the environment social, health and safety plan (ESAP). The environmental objects are a must to be accomplished in relevance to the COP on the climate change convention and the impacts are studied and implementing under this measure reform for the rehabilitation of railways.	ensure that all sectors benefit from digital innovations. The digitalization of smart mobility, and Intelligent CCS for signaling in railways and gender balance empowered.	
Developing a legal framework to support innovative start-ups			Chapter 20>< Enterprise and Industrial Policy. EU industrial policy strengthens competitiveness, facilitates structural change and encourages a business-friendly environment that stimulates small and medium sized enterprises	Goal No. 5, Gender Equality, Goal No. 8)Decent Work and economic growth Goal No. 9) Industry innovation and infrastructure Goal No. 11: Sustainable Cities and Communities, Goal No. 12:Responsible consumption and production.	The measures addresses all of the Green deal goals since it supports initiatives through its open calls that have an impact the below: mentioned points: (I)Climate actions, including decarbonization, energy and mobility. (II) circular economy, addressing waste, recycling, sustainable	The digital agenda for the western Balkans aims to support the transition of the region into a digital economy and bring the benefits of digital transformation, such as faster economic growth, more jobs and better services which goes along with the subject mission of the law itself	IPA III, 10,5 mln euro

					production, and efficient use of resources (III)biodiversity, aiming to protect and restore the natural wealth of the region (IV) fighting air, water and soil pollution and (V) sustainable food systems.		
Innovative Structural Interventions and Technology Innovations for Renewable Energy in Irrigation and Drainage Pumping Stations			<i>Green agenda and sustainable connectivity</i>	<i>Goal 7. Ensure access to affordable, reliable, sustainable and modern energy for all</i> <i>Goal 13. Take urgent action to combat climate change and its impacts*</i>	<i>Pillar 1 : Climate action, including decarbonisation, energy and mobility (sustainable infrastructure and energy investments)</i>		<i>IPARD III Programme 2021 – 2027</i> <i>Budget: 146 ml EUR</i>

**Annex III****EXTERNAL CONTRIBUTIONS TO THE ERP 2024-2026**

Remark section	area	Comment received ( <i>include date received, format of the comment, main content</i> )	Contributing stakeholder ( <i>include institution, contact person and contact details</i> )	Status of comment ( <i>accepted/rejected</i> )	Comment ( <i>justification for acceptance/rejection</i> )
Reform	area energy	Received on 26.12.2023, in electronic format. The comments were in the form of suggestions and recommendations for streamlining the analysis of the main obstacles in the energy sector, PG 4.2, and the proposed measure.	EBRD	Accepted	
Reform	area transport	Received on 22 and 26 Dec. 2023, in electronic format. Suggestion to prioritise inclusion of initiatives related to air transport, in particular EU Regulation EU261/2004.	International Chamber of Commerce in Albania & Swiss – Albanian Chamber of Commerce	Not acceptable	Proposes new initiative, but not relating to necessarily to the measures in the draft document. The initiative has merit and will be considered for the future.
General		Received on 26.12.2023, in electronic format. Begin work for ratification of Model Law on Electronic Transferable Records, adopted by UNCITRAL 13.07.2017.	International Chamber of Commerce in Albania	Not acceptable	Proposes new initiative, but not relating to necessarily to the measures in the draft document. The initiative has merit and will be considered for the future.
General		Received on 26.12.2023, in electronic format. Identify and undertake legal interventions in the Civil Code and Customs Code and other laws for bills of exchange and promissory notes.	International Chamber of Commerce in Albania	Not acceptable	Proposes new initiative, but not relating to necessarily to the measures in the draft document. The initiative has merit and will be considered for the future.
General		Received on 26.12.2023, in electronic format. Work on a guidance and domestic law for recognition and application of digital commerce documents.	International Chamber of Commerce in Albania	Not acceptable	Proposes new initiative, but not relating to necessarily to the measures in the draft document. The initiative has merit and will be considered for the future.