



**REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS**

**ECONOMIC REFORM PROGRAMME
2022-2024**

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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
ALSAI	Albanian Supreme Audit Institution
AMTP	Land Ownership Act
ARTI	Agency for Research, Technology and Innovation
AShK	Albanian State Cadastre Agency
BoA	Bank of Albania
Bn	Billion
CEFTA	Central European Free Trade Agreement
CoM	Council of Ministers of the Republic of Albania
DCM	Decree 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
EUR	Euro
FDI	Foreign Direct Investment
FMC	Financial Management Control
GDP	Gross Domestic Product
GDT	General Directorate of Taxation
GoA	Government of Albania
Ha	Hectare
HPP	Hydro Power Plant
HSh	Albanian Railway
ICMS	Integrated Case Management Information System
IFC	International Finance Corporation
IMF	International Monetary Fund
INSTAT	Institute of Statistics of the Republic of Albania
IPA	Instrument for Pre-Accession Assistance
IT	Information Technology
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 2022-2024

MES	Ministry of Education, 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
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
NESA	National Employment Skills Agency
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
QTTB	Centre for the Transfer of Agricultural Technology
RDI	Research, Development and Innovation, and Digital Economy
RNM	Republic of North Macedonia
SAA	Stabilisation and Association Agreement
SEE	Southeast Europe
SILC	Survey on Income and Living Conditions
SME	Small and Medium-sized Enterprises
TAIEX	Technical Assistance and Information Exchange Instrument
TPP	Thermo Power Plant
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organisation
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 Programme (ERP) 2022-2024 of Albania has been prepared through the inter-institutional collaboration between the Ministry of Finance and Economy and the different line ministries and the Bank of Albania, who have contributed with reform measures in accordance with the priorities of the government and national and regional strategies and documents. Order of the Prime Minister No. 107, 06.08.2019 “On the establishment of the inter-ministerial group and inter institutional technical secretariat for the coordination, preparation and drafting of the Economic Reform Programme of Albania”, provides establishment of well-defined structures tasked with coordination, preparation, drafting, and monitoring of the Economic Reform Programme.

The Economic Reform Programme outlines the main macroeconomic and fiscal policies aiming to establish the clear balance between the internal strengths and external threats, with a view to enable sustainable growth, increased employment and reduced public debt. In addition, the ERP summarizes the priority reforms measures of the Government of Albania for the short-term future for increasing domestic production, stimulating new investments and ensuring sustainable growth and increased competitiveness.

The ERP 2022-2024 presents the priority structural reforms that have been rolled over from the previous ERP, coupled with new additions included for this cycle. The overarching objective of this approach is to ensure a continuous representation of those reforms that are still being implemented, thus ensuring sustainability in the priority reform agenda.

The Albanian economy has been remarkably resilient in the face of two consecutive shocks of the November 2019 earthquake followed by the outbreak of the COVID-19 pandemic. Ample support of fiscal and monetary policy coupled with appropriate regulatory measures have helped mitigate the impact on the population and the economy and prepare the ground for a swift and robust recovery. Following a contraction of 4 percent in 2020, the economy is rebounding strongly by a projected 8.7 percent in 2021. The key challenges now are to invest efficiently in people and the economy, aiming to support the continued development of the country and to rebuild room for fiscal policy maneuver by lowering the fiscal deficit and public debt.

Fiscal policy in the medium term 2022-2024 will be oriented towards fiscal consolidation, in line with the fiscal rules set out in the Organic Budget Law (OBL) and the recommendations (policy guidance) of the European Commission in the Joint conclusions of the economic and financial dialogue between EU and Western Balkans in July 2021.

In 2022, the overall fiscal deficit is targeted at 5.4 percent of GDP, decreasing as compared to the latest 2021 revised budget law of 6.8 percent, as well as compared to the expected 2021 overrun of about 5.8 percent of GDP. In 2023 the overall fiscal balance is targeted at 2.9 percent and in 2024 at 2.8 percent. Primary balance, although again projected with a primary deficit of 2.7 percent of GDP in 2022, is improving compared to 2021, which is expected to be at the level of -3.8 percent. In 2023 the primary balance is targeted to be virtually at balance (zero), and in 2024 is targeted with a surplus of 0.3 percent of GDP, in line with the respective “non-negative primary balance” fiscal rule in the OBL. As a result, the level of public debt is projected to re-enter the downward trajectory starting from 2022 onwards, in compliance with the respective “debt-break” fiscal rule. In 2022 the total public debt is projected at about 78.8 percent of GDP from about 80.1 percent expected in 2021. By the end of 2023 the public debt is projected to decrease to 77.6 percent of GDP and to 75.7 percent in 2024.

At the same time, the Government will maintain a level of annual public investment on average around 5.6 percent of GDP per year during 2022-2024, which is essential to support potential growth in the medium and long term. Current fiscal balance (the difference between public investment and fiscal deficit) is targeted to be positive during 2022-2024, at an annual average of 1.9 percent of GDP, from an expected positive level of 2.3 percent for 2021, in accordance with the respective fiscal rule (the “golden rule”).

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Policy Guidance 1

1.1 Conditional on the economic recovery becoming well entrenched, foresee in the 2022 budget and medium-term fiscal plan a gradual reduction of the public debt ratio and, based on a realistic revenue forecast, a return to a positive primary balance as of 2023 in compliance with the corresponding fiscal rule.

In recent years, until the onset of the pandemic, public finances had embarked on a safe and optimal fiscal consolidation trajectory, materialized in the most crucial parameters of sustainability. In 2020 a highly expansionary fiscal policy was undertaken as the main counter-response to tone down to some extent the pandemic shock and simultaneously begin to accommodate the post-earthquake crucial social needs; a rather expansionary fiscal policy was maintained also for 2021. Consequently, the total budget deficit is expected to reach about 5.8 percent of GDP in 2021 from about 6.8 percent in 2020 and public debt is expected to increase to about 80.1 percent of GDP from about 75.7 percent in 2020 or about 65.8 percent in the end of 2019.

After the hardship endured in 2020, real GDP is rebounding strongly with a forecasted growth of 8.7 percent in 2021 and projected to be around 4 percent during 2022-2024. In the medium-term future, the basic objective of fiscal policy, will be fiscal consolidation. This is in line with the main scope of ensuring the macroeconomic stability as an essential premise for delivering sustainable and inclusive economic growth, as well as in line with this policy guidance (PG 1.1). Fiscal policy will target a downward trajectory of public debt, i.e. a gradual but steady annual downward trajectory, while the primary balance is targeted to be virtually balanced (zero) in 2023 and will return to primary surplus from 2024 onwards, in compliance also with the respective fiscal rules in the Organic Budget Law (LOB)¹.

Starting since this year (2022) the public debt as a ratio of GDP is expected to return to a downward trajectory, where it is targeted to fall at about 78.8 percent of GDP from about 80.1 percent expected for 2021. Under the baseline scenario, public debt is targeted (expected) to fall at around 74.6 percent in 2025 and further at around 67.6 percent by 2028.

The revenue projections for 2022-2024 in this baseline macro-fiscal framework (formally enforced) are rather realistic with an annual average growth of 5.9 percent (total revenue) as compared to the last five years (2017-2021) average growth of 4.8 percent. One should note also that actual total spending generally result in lower levels than budgeted due to both “incorporated buffers” and the “natural rate” of under-execution. Therefore, the fiscal (revenue) risks surrounding the targeted main fiscal parameters (debt, deficit, primary balance, etc.) in this baseline scenario remain rather balanced, assuming the other macro developments will happen to be broadly in line with the baseline respective projections.

1.2 Complete the Medium-Term Revenue Strategy and begin its implementation in line with the inter-ministerial committee agreement but at the latest before the next ERP submission.

The Medium Term Revenue Strategy (MTRS) document is in the process of being finalized, the draft has been completed and is expected to be published on the website of the Ministry of Finance and Economy. During February, it is planned to hold a public consultation, where meetings with stakeholders will be organized. In the last fiscal package, which was approved simultaneously with the budget law of 2022 by the Assembly and which entered into force in January 2022, it is estimated that about 30 percent of the actions / measures set out in the MTRS have already been introduced.

1.3 Increase the institutional capacities of the fiscal risk unit to continue and expand its work without reliance on external assistance.

Fiscal Risk Unit as part of the Budget Monitoring Directorate / General Directorate for Budget (MFE) has an organic structure of 1+2 employees (one head of the unit and two specialists), nominated in 2016. Since then, FRU's direct tasks has undergone through several improvements, specifically toward strengthening the monitoring of the main fiscal risks, such as those related to SOE-s, arrears & contingencies, and budgetary payments for PPP contracts.

During the first half of 2020, the SOE-s monitoring has been broadening including for the first time the water sector enterprises. Following the World Bank (WB) assistance, a monitoring report concerning State Owned

¹ The original non-negative primary balance rule sanctioned "starting from 2023 onwards", but then this was changed again in July 2021 into "starting from 2024 onwards"

Enterprises (SOE) in the water sector has been prepared and shall be the basis for further fiscal risks analysis to be included in the FRS.

In the framework of the reform in the energy sector, the monitoring report of this sector has been deepened. In December 2020, the plan of measures for the reduction of arrears in the electricity sector, was successfully finalized.

During the 2020 pandemic year, FRU has been closely monitored PPP-s with budget support, which were several times subject to budgetary cuts, in order to create budget space for governmental anti-Covid19 measures. In this regard, FRU/MFE has been closely monitoring these contracts, further more taking actions and renegotiating some concession contracts, mainly by postponing their payment deadlines, with the final goal of easing the budget burden for the difficult FY2020, but also for FY2021.

Contingent liabilities on the other hand remain a focus, thus FRU is continually monitoring and reporting the financial obligations arising from Strasbourg court decisions and arbitrations cases. Starting from 2020 (September piloting and December published) the Ministry of Finance and Economy has improved the quality of the arrears monitoring process, both from CG and LG.

Currently, FRU is continuing to monitor the above mentioned risks (from PPP-s, SOE-s, arrears, contingent liabilities), deepening all the related analysis and reports. FRU has also increased the number of SOE's monitored and has started to analyse their financial performance on a quarterly basis. Based on the MoFE's Guideline no.4 dated 25.01.2021 "On the Implementation of Budget 2021", FRU periodically monitored and prepared, in quarterly (3M) basis, the analyses of the main SOEs. This monitoring was primarily focused on the energy sector's financial and non-financial performance analysis. Also during 2021, the SoEs monitoring has been broaden towards the water supply sector's performance, and other SOE's such as Railway, Alb gaz sh.a, Albcontrol sh.a and Albanian Postal Service.

Furthermore, FRU monitors periodically (on a monthly bases) the financial and non-financial performance, only for concession/PPP contracts with budget support. These analytical reports, that are regularly prepared on a quarterly basis, are disclosed/included in all MoFE/DMB's periodic reports, such as: ABER, Mid-Year, and Budget Proposal. Included in the Fiscal Risk Statement is also the information regarding Contingent Liabilities that comes from: Decisions by the Court of Human Rights in Strasbourg, decisions of the International Court of Arbitration and administrative court decisions.

Many Technical Assistances from World Bank and International Monetary Fund have assisted FRU to further improve the quality of monitoring and reporting main fiscal risks which accompany budget implementation, as below mentioned:

During 2020:

- World Bank - Assistance on monitoring State Owned Enterprises (SOE) in the water sector

During 2021:

- World Bank - Firms Vulnerability Study
 - Covid19 Budget Expenditure Review
 - Disaster Fiscal Risk Assessment
 - Disaster Risk Financing Program
- IMF - Strengthening Fiscal Risk Management and Disclosure.

Policy Guidance 2

2.1 Continue to reduce the stock of contract-based arrears; reduce VAT arrears to zero in 2022 and analyse the reasons for the increasing arrears of local governments.

Regarding the recommendation "Continue to reduce the stock of contract-based arrears"- This is a direct responsibility of Line Ministries / Budgetary Institutions who are responsible and accountable for generating/creating arrears. While the responsibility of Budget Management Directorate / Fiscal Risk Unit is related to the arrears reporting process (together with General Treasury Directorate, General Fiscal Directorate and Local Finances Department), for which we are on-track and in full compliance with all recommendations given by partners.

On regards to the CG arrears, up to September 2021 (namely the 9M report), a slightly increase on the stock of arrears has been noted. This was mainly due to the ongoing negative impact of the Covid 19 Pandemic, and partially due to the full implementation of the MoFE's Guideline no.37/2020, which considerably improved the methodology used for reporting/processing the data related to arrears and consequently, their accuracy.

However, it should be mentioned here that the expected/estimated stock level of the GG arrears for the 12M of 2021 (progressive), is much more optimistic in a decreasing way. This is due to several factors, one above all a drastically improved performance of the tax revenue collection, especially during the second half of FY2021. As a result, the last Normative Act approved by the CoM on December 3rd 2021, which revised the budget expenditures for FY2021, had as its main goal the clearance of as much arrears as possible, both from the CG and LG side, throughout the reallocation of budgetary funds (both current and capital) towards the sectors and projects (such for example roads and water supply) with higher arrears' stock. As a parenthesis, shall be mentioned here that the preliminary data processed up to now, show that the central government arrears' level has decreased, from ALL 11.9 billion in September 2021, to ALL 8.2 billion in December 2021 (progressive stock), noting that the FY2021 is foreseen to be considered 'closed' on January 26th 2021.

Since April 2020, GDT regularly publishes on its website a dedicated quarterly publication regarding the VAT refund and arrears on VAT.

The design of automated risk-based procedure for management of VAT refunds is in place and most of the work to implement automatic VAT refund is done. During 2020, the GDT's VAT Internal Regulation, aiming to facilitate and simplify the applied risk criteria, was amended. Therefore, the repayment period of VAT reimbursement halved, and the FIFO method was strictly followed. As a result, the outstanding stock of VAT refunds decreased in 2020, compared to 2019.

Decreasing trend of VAT arrears has been more significant during 2021. GDT cleared all the stock of contract-based VAT arrears, except those, whose last instalment payment will be disbursed within 2021. By the end of November 2021, the VAT stock was 621 million ALL, 94% lower compared to the stock value on 31.12.2020 (which was 9.8 billion ALL). GDT is committed to clear the entire stock of VAT arrears by the end of 2021.

The reasons for the increase of arrears of local governments, are as follow:

- Arrears of the local self-government units mostly are arrears that were created in the past, inherited by the ex-local units (communes).
- In the course of each year, the increased obligation stock to be paid is also affected by other potential factors such as: new judicial decisions in favor of third parties, and non-realization of planned local revenues. During the last two years, external factors such as the natural disaster happened in 2019, and the global pandemic of coronavirus disease 2019, had an impact on increasing the stock of arrears in several LSGUs. The newly created liabilities relate mainly to the category of "Investments", "Goods and Services" and "Court Decisions".

2.2 Assess and approve all investments, which involve public funds including PPPs, through the same approval process and continue to report actual earthquake reconstruction expenditure in the consolidated budget implementation.

Regarding the process of assessment and approval of public investments and PPP, it has been agreed to ask for a technical assistance mission from IMF, in order to establish the legal aspects of this process.

We have continued to report systematically (monthly) the actual earthquake reconstruction spending in the monthly consolidated fiscal tables, broken down by the type of government (central or local).

2.3 Re-orient public expenditure composition towards development of human capital and innovation by foreseeing a continuous gradual increase of expenditure on education, health, social security and R&D in terms of shares in total expenditure.

Expenditures on Education, Health, Social Protection and Research and Development in nominal values are increasing from 2016 until 2022, shown in the table of expenditure by function of the government above.

This increase in expenditures spent in these functions shows continues efforts of the government to support sectors like education, health, social protection and R&D. For 2022 budget, sector of health, education and social protection have taken special attention by supporting with priority the following policies:

- Salary increase by 6% for employees in the health, education and defense sectors.
- Start-ups support, the payment of unemployment of oil workers as well as a sovereign guarantee of 1 billion ALL for manufacturing and entrepreneurship.
- A fund of 750 million ALL is projected for the Fier Regional Hospital, as well as continue the reimbursement schemes of medicines and baby bonus policy.
- Supporting with priority social expenses by increasing economic assistance payment for 3 categories:

- Increase by 10% the amount of economic assistance for about 50 thousand families that benefit from this assistance;
 - Doubling the economic assistance for families with 3 or more children, which benefits about 15 thousand families.
 - Triple economic assistance for 675 raped and trafficked women and 670 orphans under 18 years of age.
- In the education sector the budget for 2022-2024 will continue to fund the scheme of free textbooks for all students of basic education, which will be extended also to high school.
 - The budget for 2022 will support the education sector by an additional fund of 250 million ALL for 2022 and onwards for the reimbursement of public transportation expenses for students and teachers living far from school.
 - Higher education will get an additional fund of 700 million ALL allocated for twinning projects for Universities, reconfirming the focus of the government on youth and education.
 - Investments in digitalization include the relevant ministries in the sectors of order, defence, health, finance and economy, and education.
 - With a fund of 1.9 billion ALL, are financed scientific laboratories and information technology classes in pre-university education.
 - By investing in information technology training projects for young people, they will better adapt to the demands and offers in the labour market and create quality jobs.

Table 1: Expenditures by function 2007-2022 (in million ALL)

No		Fact 2016	% of GDP	Fact 2017	% of GDP	Fact 2017	% of GDP	Fact 2019	% of GDP	Fact 2020	% of GDP	Budget 2021	% of GDP	Budget 2022	% of GDP
	Total	433,697	29.5	461,411	29.8	476,139	29.1	491,897	29.3	536,278	33.9	587,660	34.9	637,694	34.1
01	General Public Services	88,331	6.0	85,237	5.5	86,126	5.3	84,438	5.0	83,742	5.3	93,414	5.6	103,521	5.5
02	Defense	10,338	0.7	10,949	0.7	11,109	0.7	13,337	0.8	12,610	0.8	20,725	1.2	27,665	1.5
03	Public Order and Safety	25,447	1.7	26,730	1.7	28,526	1.7	30,908	1.8	32,336	2.0	32,688	1.9	34,766	1.9
04	Economic affairs	45,483	3.1	53,616	3.5	50,577	3.1	50,333	3.0	60,194	3.8	61,596	3.7	60,760	3.3
05	Environmental protection	2,729	0.2	2,857	0.2	1,416	0.1	2,997	0.2	5,298	0.3	3,012	0.2	4,342	0.2
06	Housing and community amenities	27,902	1.9	38,250	2.5	39,249	2.4	36,754	2.2	51,755	3.3	70,492	4.2	65,328	3.5
07	Health	41,802	2.8	45,352	2.9	49,004	3.0	51,182	3.0	51,590	3.3	60,689	3.6	65,501	3.5
08	Recreation, culture and religion	6,356	0.4	6,440	0.4	7,378	0.5	7,310	0.4	6,842	0.4	6,205	0.4	8,263	0.4
09	Education	46,079	3.1	47,914	3.1	51,605	3.2	55,684	3.3	54,150	3.4	64,281	3.8	66,987	3.6
10	Social protection	139,230	9.5	144,066	9.3	151,149	9.2	158,954	9.5	177,760	11.2	170,559	10.1	184,361	9.9
	<i>Reserve Fund, Debt Risk Contingency and Borrowing for the Electricity Sector</i>											4,000	0.2	16,201	0.9
	Nominal GDP	1,472,480		1,550,644		1,635,715		1,678,431		1,580,960		1,682,637		1,867,351	

Source: Ministry of Finance and Economy, 2021

*R&D expenditures are not allocated with a dedicated function like other functional expenditures Health, Education etc. These expenditures are incorporated in the existing functional expenditures and we do not have a developed methodology to extract and calculate them separately.

Policy Guidance 3

3.1 Maintain a strong financial sector regulatory framework in line with international and EU best practices, ensure sound credit risk management, a transparent display of asset quality and adequate provisioning.

Ensuring that our prudential framework is in line with international and EU best practices remain our constant objective.

With this in mind, in the recent years we have adopted several important primary legislation concerning non-banking financial activity, including laws: “On compulsory Insurance in the transport sector”; “On capital markets”; “On collective investment undertakings”; “On financial markets based on distributed ledger technology”. We are in the preparation process of the draft-law “On private pension funds”. The work on drafting the related by-laws is progressing.

On the banking activity and during the same period, several important regulations in the areas of micro-and-macro-prudential supervision and of resolution, have been adopted including regulation “On liquidity Coverage ratio”, “On leverage ratio”, “On macro-prudential capital buffers”, “On the resolution fund and the procedures for its management”, “The minimum requirements for regulatory capital instruments and eligible liabilities”. A number of guidelines and methodologies in the abovementioned areas have also been issued.

This process will continue with a steady pace and at the same time we shall carefully monitor economic and financial developments, to make the appropriate adjustments and find the right balance when needed.

Ensuring that credit risk management was appropriately performed by banks was our main banking supervision focus during 2020-2021 period, following Covid-19 impact. Timely economic, prudential and financial measures, associated with frequent and closer communication with banks, were instrumental in preserving and even improving, the quality of the loan portfolio in banks. Nevertheless, uncertainties with economic and public health developments, within the country and abroad, remain present. In addition, prudential measures with regard to facilitating the process of credit restructuring and of NPL recognition and provisioning have been lifted. Hence with the purpose of identifying and addressing any credit risk management deficiency over this period, we are going to dedicate specific supervisory resources and processes to this issue during 2022.

3.2 Further reduce remaining institutional and legal obstacles to swift and effective NPL resolution, including by resolving the bailiff deadlock and strengthening bankruptcy proceedings.

Regarding the strengthening of the bankruptcy proceedings, the Ministry of Justice was assisted by the IFC experts in the preparation and drafting of the “Law on Bankruptcy” (2017) and it's by laws. Currently the following 2 acts have been approved:

- On the “Regulation of Out of Court Restructuring Agreements for Financially Distressed Debtors”, the government has approved decision no. 65, dated 3.2.2021 of the CoM the regulation “On out-of-court accelerated reorganization agreements”.
- On the “Regulation on the Presentation of Accounts and Final Discharge of the Insolvency Representative” the CoM has approved decision no. 733, dated 13.11.2019 “On the approval of the national standards for the administration of the bankruptcy measure”, which provides the manner of preparation and presentation of the accounts and the final dismissal of the bankruptcy administrator.

Concerning the functioning of the bankruptcy proceedings, the information related to the bankruptcy decision is publicly available in two different systems/platforms.

First, all bankruptcy proceedings are, in essence, judicial proceedings. So, all judicial proceedings are publicly available in the websites of the respective courts. In Albania there are two different court management systems ARK IT that is used mainly by the court of Tirana and ICMIS that is used by other courts. Additionally, some courts have their own website, such as Tirana Appeals Court and the High Court where each decision is available for the public.

On the other hand, based on the law on the national registration center, it is obligatory to register in the commercial register any decision of the court on the start of bankruptcy proceedings for a company. This decision is made publicly available in the website of the National Business Center and part of the commercial extract of each company. Hence, third parties wanting to do a business transaction with that company would be easily informed that this company is under bankruptcy proceedings.

Considering the current situation, all relevant partners that have assisted the MoJ (i.e. IFC, etc.) in improving the overall framework of the bankruptcy proceedings consider the current legal framework in place, as effective, in terms of facilitating bankruptcy proceedings and on making use of this instrument for distressed companies.

3.3 Continue with the implementation of measures aimed at promoting the use of the national currency, including by developing the market for forex hedging instruments.

It is Bank of Albania's medium term objective to support the development of forex hedging instruments. The efforts to enhance the foreign exchange market by encouraging the usage of hedging instruments are organized and planned under a set of recommendations laid out after the IMF technical assistance mission in 2019. Based on this plan, several steps have been undertaken so far:

- The MoFE has begun re-issuing 3-months T-bills with an adequate frequency.
- The BoA has revised its regulation ‘On FX fixing’, by publishing bid and ask prices besides the mid-rate. The quotations are collected only from banks and on a standardized amount (Eur 100 mln).
- The BoA has revised its regulation ‘On FX interventions’, by introducing 3-month outright forwards as an instrument for changing its reserves, in order to facilitate price discovery and instrument familiarity.
- The BoA has issued a new reporting guideline to banks and exchange bureaus for transactions in foreign exchange domestic market, which allows for standardized reporting templates and gathering extended information on different types of instruments used and counterparties.

BoA is assessing the possibility of potentially publishing aggregated data on volumes, price and instruments used in foreign exchange transactions in domestic market, aiming at increasing transparency. Steps forward

have been made in introducing market convention and standardized documentation for FX transactions – firstly, by planning to introduce derivatives in the financial instruments used with MoFE. Other measures yet to be considered relate to improving public financial education and standardizing agreements among banks.

Policy Guidance 4

4.1 Provide enhanced business support services to improve access to finance and entrepreneurial know-how.

The Albanian Investment Development Agency (AIDA) is the central dedicated public institution providing business support services (BSS) to SMEs. AIDA provides general information, e.g. on relevant legislation for starting a business, how to develop a business plan, and what financial and non-financial BSSs are available. Further support to SMEs comprises facilitating participation in national and international trade fairs, identifying new markets, export partners, training and product certification needs and support through various projects with donors.

In addition to information provision, AIDA offers financial support to businesses. However, demand has been rather low so far. In the 6-year period from 2014 to 2019, 373 SMEs received grants from AIDA funds with a total amount of ALL 264 million. According to the SME Policy Index, SMEs perceive the application procedures for AIDA's funds to be inhibiting. In addition, the grants provided through these funds are comparatively small. This appears to further deter potential applicants from going through the lengthy application process. SMEs have to meet with AIDA staff in person at the office located in Tirana as part of the application. This is reported to be an obstacle for SMEs in other regions and factors into their reluctance to apply for AIDA's financial services²

Under the three intervention areas of BIDS 2021-2027 there are some measures such as

- Structured program for further care service, Recently, the role of further care has been strengthened across the globe, in the context of the serious disruption of international value chains, trade and investment flows caused by the COVID-19 pandemic. However, further care offers a promising potential that goes beyond the current crisis. It is considered as a cost-effective way to save investment, secure reinvestment and increase development impact. Inter-organizational coordination and cooperation is considered a key factor for success. There is a wide range of institutions that provide support services to investors or that play an important role in providing these services (e.g. UCCIAL, chambers of commerce, associations, municipalities). Further care services will be expanded, following a collaborative approach to avoid duplication and confusion among existing investors. Special emphasis will be placed on strengthening the links between the central government and the municipalities through the Memoranda of Cooperation that will be concluded with AIDA and the municipalities.
- Systematic targeted investment promotion/ facilitation.
- Strengthening the start-up ecosystem, Recognizing the significant contribution of start-ups to a more innovation-driven and knowledge-driven economy, this action focuses on developing a favourable entrepreneurial environment, closely linked to the Innovative Start-up Support and Development Bill, and Innovation and the EU for Innovation program. Particular emphasis will be placed on women entrepreneurs and start-ups providing digital solutions or products / services that contribute to the development of a green and circular economy. Priority action will also address regulatory measures that facilitate the establishment of start-ups and reflect the importance of protecting industrial and intellectual property rights. Capacity building addressing the initial ecosystem and innovation: Personalized capacity building measures will target start-ups as well as support organizations (such as incubators, accelerators and initiatives of higher education institutions) helping them to improve and extend their services. Further measures aim at diversifying the structure and support services for beginners, as well as attracting new public and private players (e.g. from the diaspora) into the ecosystem.
- Improving access to finance: Building existing / donor-supported schemes, e.g. under the EU Innovation, this component envisages the introduction of further funding instruments that complement the provision of grants to start-ups and supporting organizations. This includes, among others, the development of a network of business angels and the legal framework for crowd funding.
- Entrepreneurship Skills Program for SMEs etc. This program will specifically use synergies with other

² OECD/ETF/BE/BERZH (2019) SME Policy Index

priority actions, such as the periodic training needs assessment and the workforce development program. The Training Needs Assessment will help tailor business support services to the needs of SMEs, their sector, development phase and market experience. Also, this action complements the development of employee skills through the workforce development program.

One of the KPI in area of SME development, entrepreneurship and innovation' is increasing the rating in the SME Policy Index (Support Services for SMEs) from 3.6 to 4.4

4.2 Improve transparency in the adoption and implementation of legislation particularly by ensuring an effective timely consultation of businesses and social partners on the new legislation affecting their operations.

To Improve transparency in the adoption and implementation of legislation we complete certain forms of public consultation sent by the Prime Minister called 'Public Consultation Reports' which have detailed all information regarding the methods of public consultation, stakeholders involved, Statement of comments received with reasoning comments received / rejected, duration of consultation. This report is then published on the official website of the public consultation, <https://konsultimipublik.gov.al/Konsultime/Detaje/355>.

4.3 Draft and consult a comprehensive strategy to tackle and monitor all aspects of informality, with an action plan with baselines, including clear and measurable targets and establish the regular a performance-based monitoring of its implementation and results.

During the period 2022-2024, the Albanian Tax Administration's efforts to tackle informality will focus on:

1. New and improved risk criteria for identifying non-compliant taxpayers (taxpayers with increased revenue, but decreased due VAT; taxpayers not declaring expenses for electricity bills; taxpayers with under-declared wages for their employees – identified by comparing several years' data).
2. Tackling tax evasion, tax fraud and informality, by making use of real-time monitoring of financial transactions between taxpayers, under the newly implemented fiscalisation system (invoicing and monitoring system of the trading activities of taxpayers by the Albanian tax authorities). It will bring more reported cash transactions and it will reduce hidden cashless transactions, with better control of the fiscal system. It will also help efficiency in the fiscal reporting, by gathering more data from the taxpayers and pre-filling the VAT returns with these data.
3. Detecting undeclared global income from taxpayers and individuals, through the first Automatic Exchange of Information on Financial Accounts in 2021 and onward, under the OECD's Common Reporting Standard.
4. Integrating and making use of data from third parties in the tax administration's Data Warehouse, {utilities' national authorities (water, electricity), vehicles registration, municipalities, etc.}. Taking into consideration the VAT gap as well as data inconsistencies, data collection and their good administration, building a Data Warehouse (as one of IMF's recommendations) with centralized data, managed by only one source, becomes a big step forward in terms of fight against informality.
5. Building the Register of Taxpayers' Assets (tangible & intangible), with the aim of a real assessment of taxpayer's assets, by building a system to verify and track taxpayers' income, full control of payments made on property taxes. This process will go through 3 phases: a. Creating an Asset Register with relevant attributes; b. Exchange of data with the web-service; c. Data Analysis with BI Reports.
6. Design and implement a compliance program for wealthier³ individuals.
7. Strengthen the system and use data in the decision-making process regarding wealthy individuals.
8. Use of integrated approach for the implementation of wealthy individuals 'compliance strategy.
9. Implementation of the tourism sector plan.
10. Analysis and implementation of Risk rules for monitoring taxpayers in the framework of changing the VAT threshold to 10 million ALL.
11. Implementation of the informality sector plan in the labour market in its 4 components.

All these activities are described more in detail in the Section *Reform measure 06: Strengthening the fight against informality*.

³ Based on IMF recommendation, the current definition of *wealthier individual* for the Albanian environment is any individual with annual gross income above 125 mln ALL or with accumulated assets' worth above 1 bln ALL.

The tax administration has consistently taken measures in the fight against informality during the period of 2021.

Concrete steps have been taken in sending personalised letters, based on the criteria of the risk adopted in the Compliance Committee for the declaration of real wages.

3,883 personalised letters have been sent to taxpayers for declaring real wages.

Monitoring the taxpayers' reaction to these letters showed that there was an increase of 2% in the number of employees for the same jobs' level.

From the last data we have, it results:

- 665,327 employees
- 705,738 jobs

For the period January-December 2021, social and health contributions were ALL 106,266,160,000.

- About 63,828 fiscalised active taxpayers, since January 1, 2021.
- 93,851 taxpayers or 77.2% of the total active taxpayers are equipped with fiscalization certificates.
- About 55,698 active businesses have bank accounts (as per the Law for Tax Procedures' requirements.)
- Net fiscal income for 2021 is estimated at ALL 144,606,608,000 marking a 15.8% increase compared to the whole period of 2020.

Through sectorial plans the aim is to identify risky sectors in the economy and draft plans to tackle informality in areas that have the greatest impact on the economy, such as under-declaration of real salaries or incorrect declaration of the number of employees. This will be done through the data available to the tax administration from the tax information systems, identifying those taxpayers who have previously had a history of non-compliance with these tax obligations. The tax administration aims to improve the inter-institutional cooperation framework and provide operational plans to identify informal employees, based on a clear strategy. The responsibility for handling undeclared work has spread to several institutions: non-compliance with taxes is in the Tax Administration, handling of contributions with the SSI and compliance with the Labour Code by the Labour Inspectorate. We further plan to strengthen cooperation with the Risk Unit of the Labour Office to guarantee a cooperation agreement in order to exchange information between these institutions. The tax administration has better data on taxpayers that will then be made available to the Labour Office or the Social Insurance Institute.

Some of the concrete steps that will be followed in accordance with the Medium Term Revenue Strategy are related to:

- 1) Reducing the VAT compliance gap. Indicators in reducing the VAT gap are considered: Increase in VAT revenues for all sectors of the economy; increase of VAT revenues in the construction sector; control time of entities; increase turnover on a monthly basis of risky sectors.
- 2) Reduction of undeclared work and sub-declarations of cash economy.
- 3) Taxation of any unjustified assets inside and outside the country.
- 4) Reducing tax evasion.
- 5) Reducing compliance costs and increasing tax security and trust of the tax administration.
- 6) Motivating citizens to be part of the fight against informality.

The tax administration has also implemented a major process such as Fiscalization that will have a positive impact on reducing informality. In the implementation of the Directorate of Risk Management will be 101 risk criteria, among which we expect to be fully implemented within 2024, with the updating of the Risk Module, based on the Fiscalization Project and the combination with the current module. As a starting point, only 44 criteria will be applied.

Policy Guidance 5

5.1 Establish an inter-ministerial task force involving relevant ministries, their agencies and stakeholders to develop a Youth Guarantee Implementation Plan.

Appointment of the Multi-Stakeholder Group was slightly delayed due to the appointment of new Government of Albania, which occurred on mid-September 2021. Based on the new structure of ministries we have a preliminary list of proposed Ministries, Agencies and civil society organizations. A Prime Minister Order is prepared and is sent for approval. The order appoints the National Coordinator of YG (Deputy Minister for employment and skills), establish the Multi-Stakeholder Group and the Technical Group.

The multi - stakeholder group will be chaired by the Minister of Finance and Economy and will consist of different public institutions that will be part of YG scheme. Also part of the group will be the representatives of social partners and youth organizations.

The technical working group will be chaired by the Deputy Minister of Finance and Economy responsible for employment and skills and will consist of representatives of different institutions and agencies related to the introduction of YG scheme in Albania.

5.2 Develop institutionalised tools to monitor skills needs in the labour market with an aim to provide relevant career guidance and to improve the offer of short-term vocational courses accordingly.

The skills needs analysis at the national level is envisaged to be conducted in cooperation with UNDP.

NAES in cooperation with partners has initiated the conduct of regional labor market analysis in order to better plan the needs for training and education. This instrument was piloted in the Elbasan Region and the presentation of the findings will take place soon. Meanwhile, the SNA at the national level has not been realized yet. However, cooperation with UNDP has begun for its realization. It is planned to hold meetings with actors who have previously worked on this instrument. The aim is to turn the methodology into a sustainable instrument

By the end of 2020, the Skills 4 Jobs project organized 14 Workshops in 5 regions of the country where the project operates, respectively in Vlora, Lezha, Elbasan, Shkodra and Berat. The purpose of these dialogue roundtables is to facilitate the process of adapting study and training programs in the region to the needs of local businesses for skilled workers. The objectives of the dialogue platform are:

- Increase awareness and information exchange at the county level between education and training providers, and companies;
- Facilitate coordination and partnership between providers and employers in order to reduce the gap between education and training, and the world of work;
- Promote the development of skills required by the labour market through a participatory and comprehensive needs assessment process;
- Facilitate greater and increasing involvement of companies in both identifying skills and providing new skills.

What was noticed and concluded from these meetings was a high readiness of the private sector to be involved in the creation of short-term courses or profiles presented and their participation / attendance by employees in the respective sectors.

There is also an increased interest of the private sector to intensify cooperation with VET institutions and other actors; as a result of the growing demand for qualified specialists in all industries.

Willingness of the private sector for cooperation in improving the curricula and teaching modules, as well as the realization of professional practice, in order to adapt the skills to the requirements of the industry.)

NAES in cooperation with partners has initiated the conduct of regional labour market analysis in order to plan clearer training needs and training. This instrument was piloted in the Elbasan Region and the presentation of the findings will take place soon.

5.3 Incentivise the link between innovative businesses and academia in the upcoming draft Strategy on Business and Investment Development 2021-2027 by including clear targets to increase science and research funding and by creating the conditions for the development of business incubators.

Sound skills intelligence forms the starting point for ensuring modern and dynamic education and training provision in line with labour market and societal needs. Based on up to date and easily accessible skills intelligence, concerted efforts are needed to assist SMEs in identifying appropriate upskilling measures, to extend the training offer and to keep pace with the speed of the transitions and changes in the competitive environment. This includes strengthening linkages between the triple helix actors exploring new approaches to promote collaboration and mobility between academia and businesses.

In this context, there is also a promising potential to utilise synergies at the interface between human capital development and the other intervention areas of BIDS in particular with respect to:

- Focusing on the needs of investors and involving them in skills development measures at the same time;
- Fostering entrepreneurial learning and intensifying collaboration between entrepreneurs and educational and training institutions;
- Integrating skills development into SME support measures and initiatives to upgrade promising value chains in the context of smart specialisation.

Under the Intervention area 3: Human capital development, There are some principles of the EU SME Strategy and Skills Agenda, the new BIDS stress the strategic relevance of skills from the perspective of SMEs, large investors and start-ups. Skills and lifelong learning are essential for sustainable growth, productivity and innovation. It is only with the right skills that Albania can strengthen its position in international competition and value chains and have a sustained economic relaunch after the pandemic crisis.

Educational and up skilling activities are essential to make the local firms fit for the transformation of international value chains, the single market, for smart specialization as well as the green and digital transformation. In a changing competitive environment, start-ups and established SMEs alike are often challenged by a lack of adequately skilled employees. They often do not have the same resources as large companies to invest in the training of their employees. At the same time, the skills base has gained in importance in location decisions of investors in particular from knowledge- and tech-driven target groups.

Considering the current situation and available resources, it is important to contextualize human capital development with the other intervention areas and to follow a forward looking and collaborative approach.

There are some measures that intend to strengthen the linkages between innovative businesses and academia such as;

- Collaborative human capital development support scheme

Both start-ups and established SMEs often face challenges from a lack of skilled employees, especially for job positions that require more skills. Based on the recommendations of the Triple Helix Action Plan, a support scheme will be developed to increase the skills base and explore new approaches to promote collaboration and mobility between the school and businesses. This scheme will provide financial support for the employment of qualified talent in R&D and innovation projects, and covers two components: 1. Assistance to SMEs employing talented recent graduates for innovation projects:

New graduates will be hired for tasks in the areas of research and development, development / improvement of new products and processes, market research and business development for innovation. This scheme will provide a salary subsidy covering up to 50% of gross salary as well as work-related expenses (such as training) of a recent graduate from an SME to work on innovation projects, for a period of up to 18 months. The maximum contribution will reach the value of 4,500 Euros per person (250 Euros per month).

New graduates will be hired again and for the first time. The recent graduate should not replace an existing position.

2. Assistance for doctoral students:

The industrial doctoral program is an industry-focused research project and PHD program and is jointly developed by a private sector company, an industrial PHD candidate, and a higher education institution. The candidate for industrial PHD is employed by the company and at the same time enrolled in higher education institutions and works for the same project in both countries. The candidate must spend all working time working on the project and cannot perform other tasks. The company receives a salary subsidy for the payment of the candidate (e.g. up to 50% of the full gross salary / up to 200 Euros per month) for a period of up to three years. Higher education institutions receive a subsidy for supervision, equipment and other expenses for the candidate's education (e.g. up to 2,000 Euros per year).

An additional AIDA position is needed to coordinate the scheme, which will also support the implementation of the enterprise support scheme (priority action 2.1). During the drafting phase, it will be assessed whether it is necessary to change the legal / regulatory framework. Based on the evaluations of the experience gained, the program can be expanded to further target groups. Design and implementation of a support scheme that includes:

- Assistance to SMEs hiring recent graduates for innovation projects
- Assistance for doctoral students who are employed in SMEs and at the same time enrolled in higher education institutions, working on a joint research project
- Programs "Innovation and Excellence in Manufacturing" and "Innovation and Excellence in IT" will be created for training in innovation, design, marketing, research and development by covering 100% of training costs. Costs will be reimbursed 50% directly and 50% as 2 times deductible tax to companies where the beneficiary is employed. The costs of these programs will be determined during the preparation of the following fiscal policies.

- Labour force development programme for and with SMEs and investors

The attractiveness of a destination for investors depends heavily on the quality of the skills base, especially from the perspective of the target groups whose businesses rely on knowledge and technology. At the

same time, international experience shows that local investors and businesses can make a valuable contribution to strengthening human capital. The workforce development program will involve investors and SMEs in increasing the skills base as well as increasing digital skills for the SME workforce, through specialized ICT training. This program includes three components which will be implemented in stages.

Component 1: Integrate skills development into follow-up care services

This component may build on existing activities and donor support such as assistance from GIZ for further care services. The focus will be on facilitating services by supporting investors to develop their workforce through existing structures and programs, such as on-the-job training and vocational training. These services will be developed through close cooperation between AIDA, KPAA, vocational training centres and other stakeholders such as chambers and organizations. The division of tasks will be detailed through the MoUs.

This program will be coordinated by AIDA and will be implemented in close collaboration with private training providers, and business associations. The main focus will be on short-term courses, e.g. short-term training courses for welder. Training courses will be given by external experts / private trainers. To ensure effective implementation, AIDA will need adequate resources and capacity. The coordination of the workforce development program will be done by the training sector.

Component 2: Feasibility study for a skills development centre according to the PPP model

International experience shows that there is a promising potential for cooperation with investors regarding skills development measures. Implementing PPP models for skills development is considered a promising strategic option. In line with good international practice, such as the Penang Skills Development Center, a comprehensive feasibility study will be conducted to assess the feasibility of a pilot training centre based on the PPP model and in collaboration with investors in a TEDA. This center may include target-oriented training programs, such as technical courses, vocational training, or bachelor's degrees.

As KPIs in the Strategy it is foreseen to

- Increase of the percentage of employments in professions that require in-depth knowledge from 17.5% to 19.5%.
- Increase the rating in the Policy Index for SMEs (entrepreneurial skills) from 4.3 to 3.9.

Policy Guidance 6

6.1 Perform an assessment of the adequacy of benefits under the 'Economic Aid' scheme, taking into account the data from the 'Statistics of Income and Living Conditions' survey, in view of their systemic adjustment.

The government took temporary measures to increase the adequacy of social assistance benefits and extend income support during the pandemic. The budget scheme for 2021 was increased and as a result, benefits doubled in the first half of 2021. In this regard, the roadmap with steps and timeline for adjusting the benefits of economic aid and establishing a transparent mechanism for their regular annual review, in compliance with the condition of the EU Macro-Financial Assistance to Albania, has been already prepared. The steps of the roadmap are committed to carry out until the end of 2024. The steps include the analysis of the performance of the economic aid benefit using the most recent HBS and EU-SILC data and establishing a mechanism to regularly update the level of the economic aid benefit.

6.2 Build capacities in local governments to apply for support from the Social Fund and to plan, manage and deliver social care services.

Based on the State Social Services Program "On the coordination of the process of drafting and implementing social plans", during 2021, 37 municipalities of the regions of Kukës, Dibër, Berat, Gjirokastrë, Fier, Korçë and Vlora have been assisted in drafting and implementing social plans. Initially, the assistance was focused on identification of the key issues that need to be addressed, to assess the needs for social services, and secondly, a model approach was introduced for drafting a social plan, based on the priorities of each municipality, translated in concrete projects applied for social fund. For 2021, among others, 3 emergency services for victim of domestic violence (Gjirokastrë, Berat, Kukës); 1 daily service for children with disability (Lushnjë) and 2 Child & Family Hub, in De-I reform (Korçë and Vlorë) were supported by Social Fund. So far 60 out of 61 municipalities have approved the social care plans.

6.3 Redesign coverage policy, including for outpatient medicine, to reduce unmet need for medical care and financial hardship, particularly among persons with disabilities and chronic disease, poor households, people aged 65 and over, and minorities

According to Council of Ministers Decree no. 489 date 30.7.2021 “For the approval of The Drug Reimbursement List”, the new DRL contains 1,191 drugs from which the total number of beneficiaries including children, elderly and patients with chronic disease is 400,000. The new DRL includes drugs that treat and keep under control the most common diagnoses of chronic diseases such as diabetes, HTA and cardiovascular disease. Moreover, in the DRL also included innovative drugs for the treatment of different cancer pathologies such as lung cancer, breast cancer as well as post COVID patients.

The dialyses patients are another group that are direct beneficiaries of the DRL through the reimbursement of new drugs that are added in the list. The total budget of the new DRL is 107 million USD.

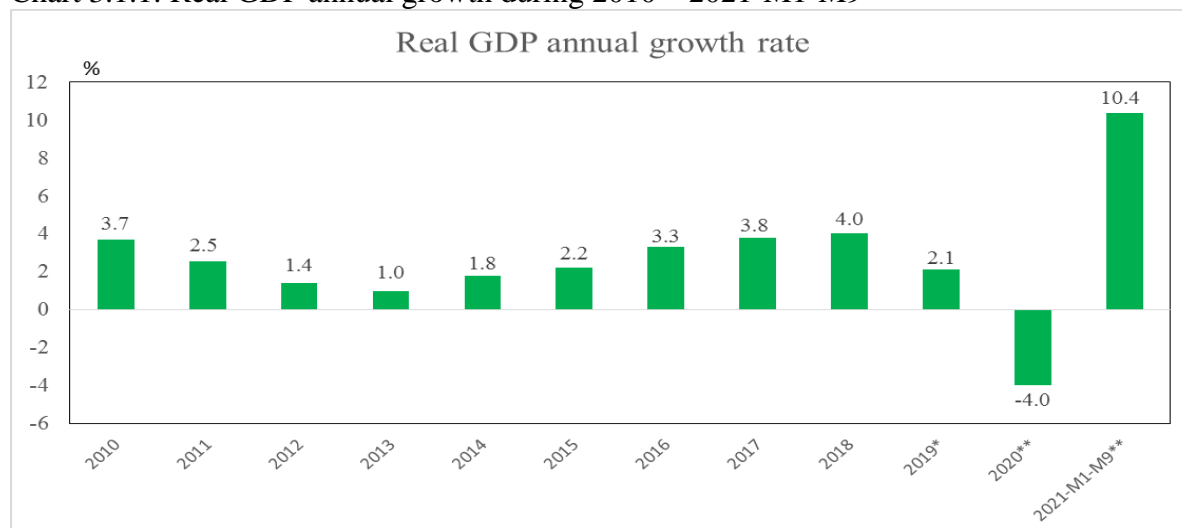
Moreover people with disabilities benefit the sanitary package in cash allowance. Around 6,500 people with disabilities benefit a monthly payment for the sanitary package in the amount of 160 USD.

3. MACROECONOMIC FRAMEWORK

3.1. Recent economic developments

The Albanian economy rebounded strongly in 2021, following the recession of last year. Ample support of fiscal and monetary policy coupled with appropriate regulatory measures have helped to contain the effects of the pandemic. Economic growth has been stronger and more broad-based than previously anticipated. Real GDP increased by 10.4% in the first nine months of 2021, driven by investments, households spending and exports. One-off factors such as the base effect and electricity production contributed also to the high GDP figure in the first half of the year. The recovery of demand has been rapid and output has already reached the pre-earthquake and pre-pandemic level. The labour market has also improved, with employment increasing and unemployment rate decreasing to 11.3% in the third quarter of the year.

Chart 3.1.1: Real GDP annual growth during 2010 – 2021-M1-M9



Source: INSTAT. *semi – final data. **preliminary data.

From the sectorial side, GDP growth was first driven by the production sector as it recovered quicker. It contributed by 4.3 p.p. during the first nine months of the year. Activity in the production sectors has been particularly strong in construction, mining and manufacturing as well as electricity production. The latter has benefitted from the favourable weather conditions. On the other hand, agriculture production has been sluggish. The service sector contributed by 5.1 p.p. during the same period of 2021. It was slower to react at first since restrictions were still applied at the beginning of the year. The good performance of this sector was more evident in the second quarter and third quarter as restrictions were eased and tourism started to revive.

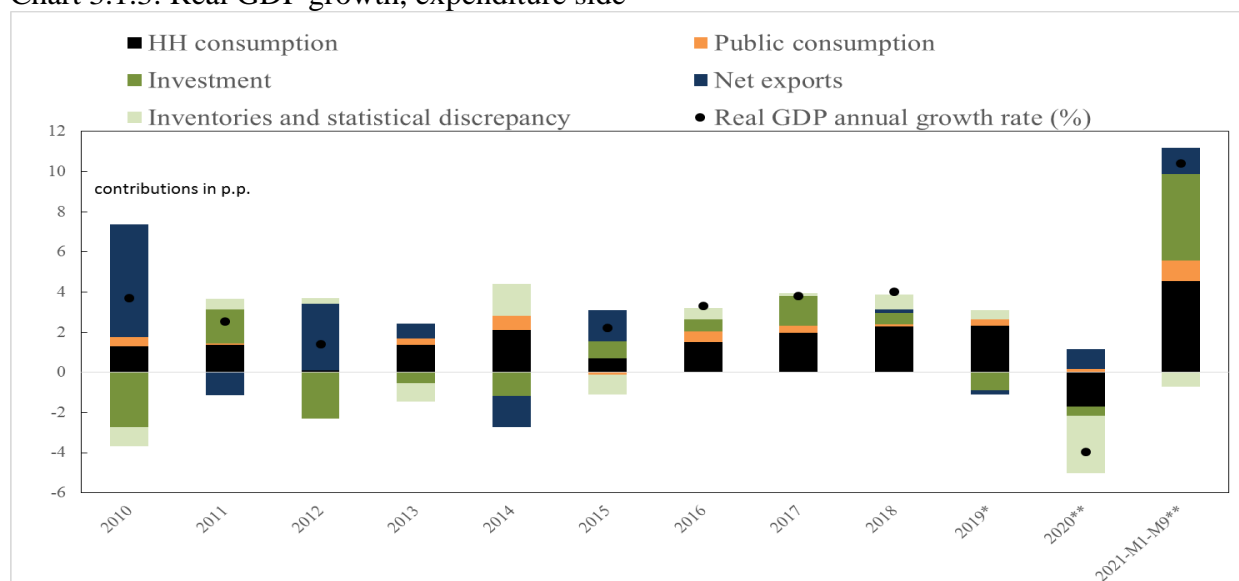
Table 3.1.1: GDP growth contributions from the production and demand side, in p.p.

	2020**				2021**		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
by sectors:							
Agriculture, forestry and fishing	0.5	0.5	-0.2	-0.5	0.0	-0.2	0.0
Industry, energy and water	-0.9	-1.9	-0.5	0.0	2.6	4.2	1.1
Construction	-1.3	-0.9	0.9	1.8	1.3	3.5	0.4
Services	-0.8	-7.0	-2.7	1.5	2.0	9.1	4.2
Taxes minus subsidies on products	-0.2	-2.0	-1.1	-0.4	-0.2	1.8	1.3
Real GDP growth (yoy in %)	-2.8	-11.3	-3.5	2.4	5.6	18.4	7.0
by expenditures:							
Private consumption	1.4	-6.8	-2.6	1.4	1.3	9.4	2.7
Public consumption	0.2	0.1	-0.1	0.5	0.8	1.4	0.9
Investment	-3.2	-2.6	1.2	2.7	3.8	8.0	0.9
Net exports	1.5	1.2	-0.2	1.3	-2.7	4.1	2.4
Inventories and statistical discrepancy	-2.8	-3.0	-1.7	-3.5	2.5	-4.	0.2
Real GDP growth (yoy in %)	-2.8	-11.3	-3.5	2.4	5.6	18.4	7.0

Source: INSTAT. *semi – final data. **preliminary data.

From the demand side, domestic demand was the main contributor expanding annually by 8.3% in the first nine months of 2021. Much of the economic momentum has been driven by the strength in investments, which grew annually by 20.2% over the same period. Both private and public investments have increased with the latter including earthquake reconstruction expenditures. Indirect data suggest a strong impact from residential construction. On the other hand, the recovery of household consumption was more sluggish, with growth rate standing at 1.4% in Q1. However, as restrictions eased in Q2, household consumption growth jumped to 10.9% and 3.3% in Q3. Public consumption increased also as the government stepped in support for pandemic related expenditure (including health and other support services). Finally, the global recovery and continued demand for our goods exports have also contributed to GDP growth. While developments in the Q1 were still sluggish as service flows were impeded by travel barriers, the second quarter marked a turning point as international travel restrictions were substantially relaxed and tourism boomed. Net exports contribution was positive – around 4.1 p.p. – in Q2. Positive contributions were also recorded in Q3 – at around 2.4 p.p.

Chart 3.1.3: Real GDP growth, expenditure side



Source: INSTAT. *semi – final data. **preliminary data.

Labour market has shown some resilience in the face of the pandemic shock, supported also by the government measures. Following the recovery of demand, employment started to improve in: Q2, increasing by 1.1% and again by 0.7% in 2021 Q3. The increase in employment was broad based, witnessed in industry, construction and services. The unemployment rate dropped to 11.3% in 2021Q3, down from the peak of 11.9% in 2020Q2. Last year, the increase in the unemployment rate was not proportional to the decrease of employment. Government measures along with the expectations that the situation would be temporary led a large chunk of employees to register as “inactive”, thus not showing in the unemployment rate figure.

Despite the recent improvements, employment continues to be slightly below the pre-pandemic level and unemployment rate is slightly higher. The declining trend of the employment in the agriculture sector is impeding the full recovery of the labour market.

Wage growth has remained in positive territory (both nominal and real) in spite of the pandemic. Wages grew by 5.6% in the first nine months of 2021, with wages in the public sector growing faster – at 6.6% compared to wages in the private sector (5.4%). This reflects the increase of the minimum wage by 15.1% since January 2021. Adjusted for inflation, the real average growth of wages for 2021-M1-M9, stands at 3.9%.

Chart 3.1.4: Labour market indicators



Source: INSTAT.

The first nine months of 2021 have witnessed a major drop in *unit labour costs indicator*⁴ (6.1% on average annually). That is quite a reversal of last year's trend when unit labour costs increased by 1.1% on average. *Labour productivity* was the factor driving developments in unit labour costs in both years. In 2020, productivity decreased substantially as economic activity stalled. While in 2021, the economic recovery showed in productivity growth.

The average inflation rate for 2021 was 2.0%, standing 0.4 p.p. higher than in the previous year. Inflation increased quite rapidly from Q1 to Q2 and Q3 to Q4 respectively, from 0.9% to 1.8% and from 2.4% to 3.1%. The increase of inflation is mainly attributed to: (i) the increase of oil prices, reflecting amongst other factors the base effect from last year drop. However, in October 2021, the value of the subgroup's index exceeded the pre-pandemic level, suggesting the unwinding of the base effect; (ii) the increase of unprocessed food prices, mainly vegetables; (iii) the increase of processed food prices – especially since June – driven mainly by high food commodity prices in the international market.

The easing of anti-Covid measures boosted demand for services, exerting upward pressures on their prices. Such pressures were seen in the increase of the inflation of "Recreation and culture" – especially during the third quarter – of "Hotels, bars and restaurants", during summer months and end of the year, of "Transport", "Health" and "Communication" since the second quarter.

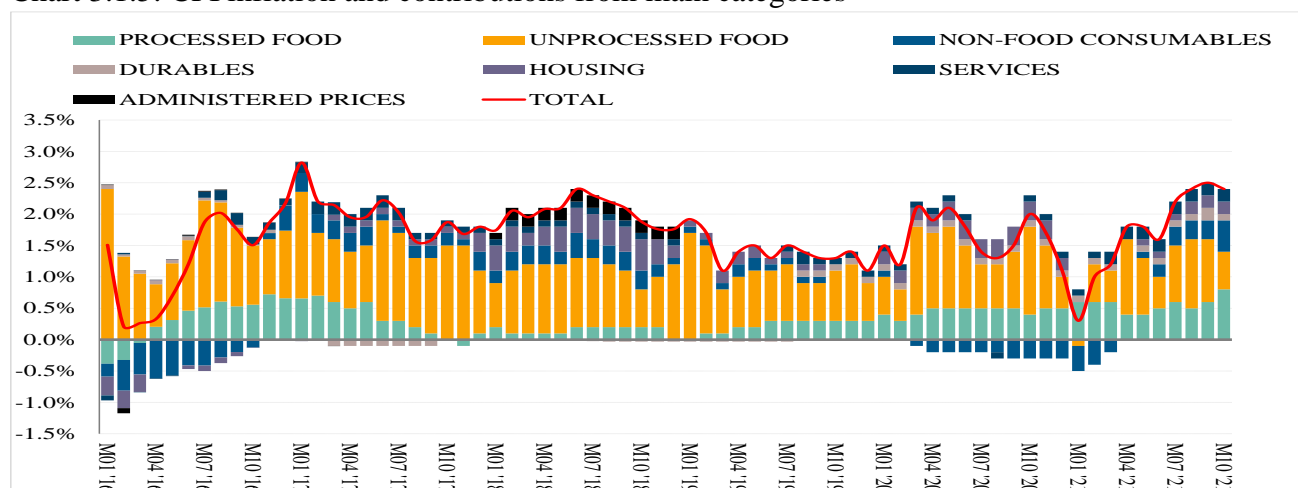
From the point of view of macroeconomic factors, the pick-up of inflation is largely driven by the rapid increase of energy and food prices in the international market. Nevertheless, domestic inflationary pressures are also increasing following the recovery of the demand. The average core inflation rate was 1.7% for 2021, accelerating from September to December 2021, respectively 1.75% and 2.56%. As a result, core inflation was 0.3 pp higher than in the previous year. Its contribution to headline inflation was also higher than in 2020 at around 1.2 p.p. The increase in the recent months is due to higher inflation of services and higher inflation of "Bread and cereals" subgroup – which has a significant weight in the CPI basket and low price volatility over the years.

Despite the narrowing of the output gap and increasing domestic inflationary pressures, the latter are still contained as witnessed by the low levels of core inflation. The increase of employment and wages is still insufficient while inflation expectations remain below the inflation target. The inflation expectations from consumers have been gradually increasing during 2021, peaking at 6.3% in the last quarter. Meanwhile, financial agent's inflation expectations, albeit registering a small increase in the last quarter, remain in general low, below the target. Businesses inflation expectations have been decreasing during 2021.

In the short run, foreign inflationary pressures are expected to remain elevated, driven mainly by high commodities prices in international markets. The latter are expected to normalize during 2022. On the other hand, domestic inflationary pressures are expected to increase gradually following the uninterrupted expansion of the Albanian economy and the absorption of slack. This will lead to a more dynamic growth in wages and other production costs supporting a sustain convergence of inflation to target by end of 2022.

⁴The proxy indicators for labour productivity, unit labour costs and average wage are calculated by the Bank of Albania using the total series from "Short – Term Statistics", where the agriculture sector is not included (INSTAT, latest publication 2021 Q3).

Chart 3.1.5: CPI inflation and contributions from main categories



Source: INSTAT and BoA's calculations.

The current account deficit shrank by 16.7% annually in the first nine months of 2021, following the expansion of last year. Positive developments in the case of services and secondary income produced the main contributions.

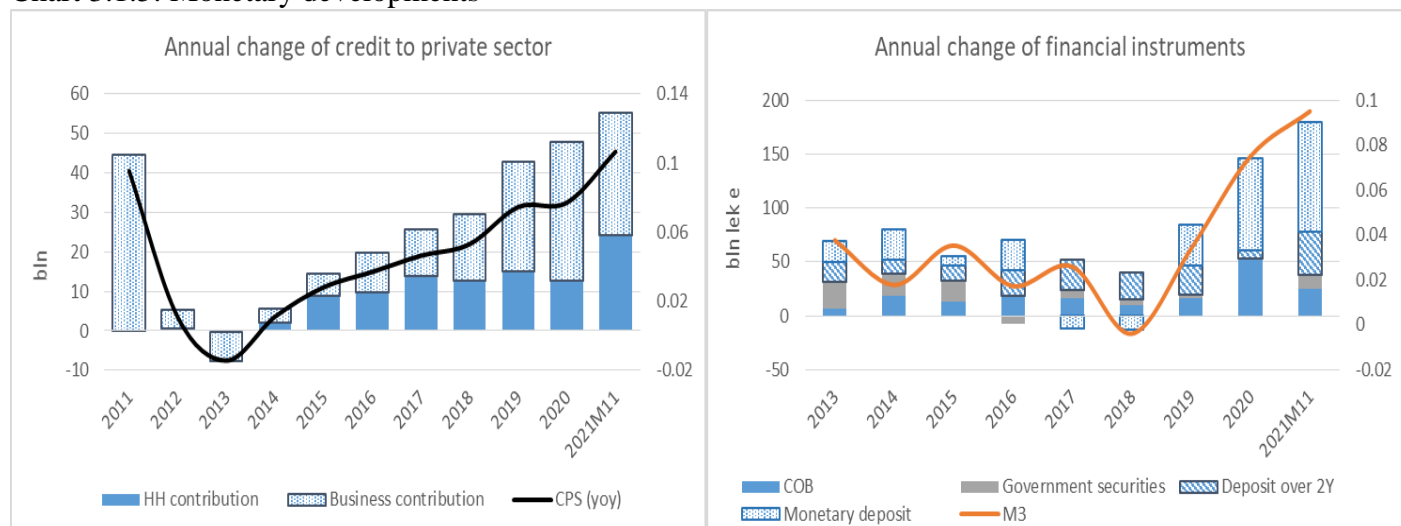
The stock of the gross external debt of Albania dropped to 61.8% of nominal GDP in the third quarter, down from 68.1% a year ago. Aside from the GDP effect, the decline of this ratio reflects the drop in the General Government debt due to repayments of past Eurobonds particularly in the final quarter of 2020.

The exchange market has operated under normal trading conditions and risk parameters, reflecting the balance of supply and demand for foreign currency in the market. Lek has been stable against euro in the first quarter of the year, with eur/lek averaging at 123.5 lek/euro. In the months that followed, the opening of the economy after the relaxation of Covid-19 restrictions and the ensuing revival of the tourism activity stipulated a gradual appreciation of lek, culminating in Q3 and Q4, with 1.8% yoy on average. Currently eur/lek is fluctuating slightly above 121 lek/euro. The annual appreciation of lek in effective terms, on the other hand, averaged 4.0% in 2021, up from 2.3% in 2020. The hike in the appreciation figure in December (8.0%) is caused by to the sharp depreciation of Turkish Lira.

Financial markets are characterized by adequate liquidity conditions, contained risk premia and low interest rates. The stimulating monetary policy of the Bank of Albania has provided the economy with favourable monetary conditions, while the healthy balance sheets of commercial banks have enabled a proper transmission of this stimulus in the market. Lending interest rates have remained close to their 2020 levels for businesses (at avg. 5.6%) and slightly lower for households (avg. 6.1%), reflecting supportive financing conditions for investment and consumption. The higher financing needs of the government this year have been absorbed by the market without crowding out the private sector credit and without any added stress. Yields have fluctuated close to their 2020 average.

The favourable financial conditions are contributing to credit growth. Credit to the economy has been instrumental in ensuring corporate sector liquidity and has helped finance the pick-up in private investment and consumption. Credit to the private sector increased to 8.4% until November, up from 6.7% in 2020. The recovery of economic activity and the improvement of confidence has boosted credit demand, particularly from households. On the other hand, banks have eased credit standards. Credit growth has been supported by the expansion of credit in lek, increasing by 10.5% up to October. The continued expansion of this portfolio – supported by the accommodative monetary policy – has increased the share of lek credit to total to 50.3%, almost 1 pp higher than the average of 2020. During 2021, foreign currency lending increased as well, recording a growth rate of 6.4%. Foreign currency lending was channeled mainly to trade, tourism and construction. Lending to households has also picked up, reflecting the revival of private consumption and household demand for mortgage. Household lending expanded by 11.4% until November. This growth rate is almost twice the increase of the previous year.

Chart 3.1.5: Monetary developments



Source: Bank of Albania

Deposits have picked up in 2021, indicating higher household saving and ample business liquidity. Deposits have increased by 8.4% until November, with the growth rate standing 1.7 pp higher than last year. Deposits expansion was driven by both lek and foreign currency deposit, increasing 7.7% and 9.1% respectively. The acceleration of foreign currency deposit reflects higher foreign inflow and promotional banks' offers during summer time. In term of maturity, demand deposit continue to dominate banks' deposits. Its share to total has picked up to 55%. However differently from the previous year, since summer we are experiencing a positive contribution of time deposit to the total growth.

3.2. Medium-term macroeconomic scenario

Real Sector

Year 2020 was in terms of economic activity and public finances, one of the most difficult years in three decades. Albania, in addition to the shock of the pandemic that the whole world suffered, shortly before it was also hit by the earthquake, and of course the negative effect on the economy is amplified.

During 2020, was recorded a recession of 4 percent, which due to the pandemic reached the peak of GDP contraction in the second quarter at about -11.3 percent but showing signs of recovery and returning to positive ground in the last quarter of the year. However, despite the severe impact that both shocks have had, thanks to the relatively good economic policy responses (fiscal and monetary), latest statistical data available show that the overall situation at the end of 2020 was significantly less severe than expected at the beginning of the pandemic, ranging from about -6 percent (Ministry of Finance and Economy projection) to about -8 percent from other domestic and international institutions. Throughout 2021 the recovery of the economy is significantly faster than initially expected. So far, it seems that the main economic and financial fundamentals and the overall macroeconomic stability of the country have resisted these shocks relatively well.

Albania's economy during the first nine months of 2021 showed very encouraging signs, marking a rapid recovery of economic activity. Gross Domestic Product (GDP) for the first nine months of 2021 has increased by about 10.38 percent compared to the same period of 2020 according to the latest estimate available from INSTAT. This recovery relies on a wide range of factors and is present in almost all sectors of the economy. The reduction (almost removal) of restrictions after the fall of infections, where the vaccination process has also played a key role, the increase of business and consumer confidence, the improvement of partner economies, as well as fiscal and monetary support policies, have led to increased household consumption, public and private investments, as well as exports. Both the manufacturing and services sectors have benefited from these developments, providing recovery for business and employment and creating good premises for the medium-term outlook.

According to the optics of aggregate demand, in the first nine months of 2021 it is estimated that all components of aggregate demand have marked strong growth, thus reflecting the resumption of normal economic activity, after the strong consequences from lockdown during 2020. Growth during the first nine months of 2021 was generated almost entirely by domestic demand, both from private consumption and investment. Meanwhile, net foreign demand is estimated to also have a moderate net effect to total growth.

This is because the high positive contribution from the strong growth of exports of goods and services was almost counter balanced almost entirely by the negative contribution from the also strong growth of imports of goods and services.

In this context, total final consumption, which is the largest component of the economy, decreased by about 1.9 percent in real annual terms during 2020, and the final consumption of the population decreased by about 2.3 percent. Meanwhile, for the first nine months of 2021, final consumption marked a significant increase of 5.67 percent, while private consumption marked an increase of 5.30 percent compared to the same period a year earlier.

Gross Fixed Capital Formation (total investments) decreased by about 2 percent in real annual terms during 2020, while for the first nine months of 2021 this rate increased by 20.15 percent. This increase is attributable to a considerable extent to the increase in public investment during this period, including those for post-earthquake reconstruction.

Regarding the economic outlook, assuming that the evolution of the pandemic will remain within some moderate limits over the coming months, and secondly, taking into account that the main fundamentals of the economy have not suffered any problematic shocks and are normally expected to continue to remain relatively solid, for the medium term ahead we expect growth to return to relatively solid positive levels.

Growth for 2021 is expected to be around 8.7%, which is a very strong rebound, significantly above the initial forecast. In the medium term we anticipate that it will converge and stabilize around the level of 4%, which is also MoFE's estimated level of potential growth. More specifically, the medium-term economic growth of Albania is forecasted at 4.1% in 2022, 4.2% in 2023 and 3.9% in 2024.

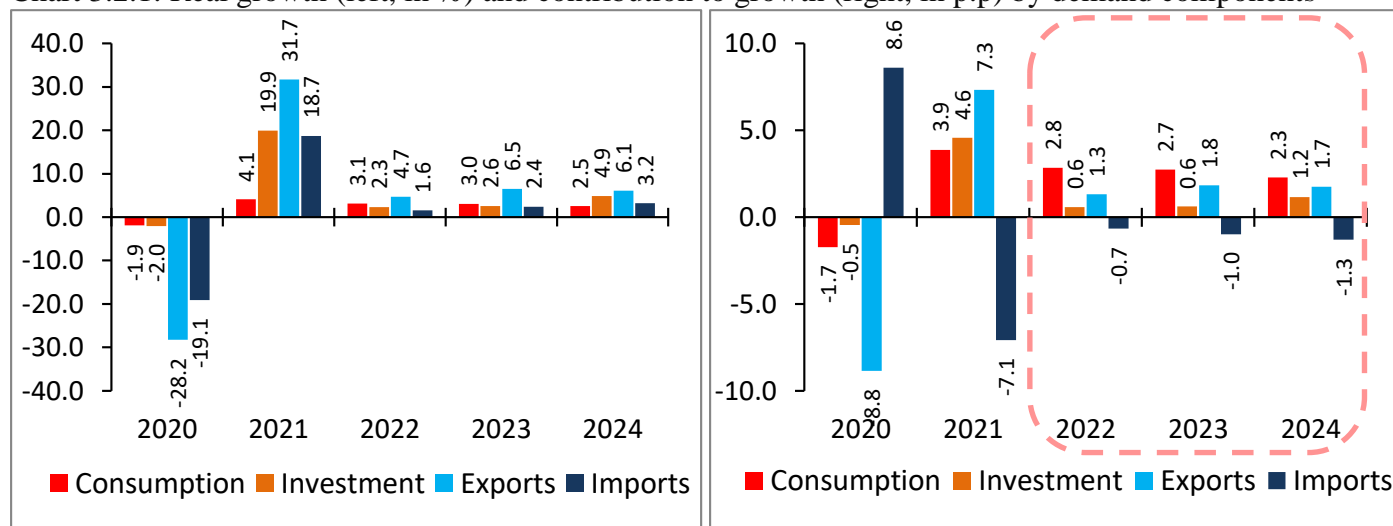
In the medium term, growth is expected to be generated mainly by domestic demand, both consumption and investment. Meanwhile, net foreign demand (export - import) is expected to have a moderate net effect. Consumer loans are expected to be fuelled by both the improvement of individual financial conditions and the expected easing of lending standards from the banking system in the medium term ahead, after overcoming the negative effect of the pandemic.

Whereas the growth of investments is expected to reflect already more intensive use of existing production capacities, as well as the acceleration of economic activity over the forecast period, and overall improvement of investors perception on macroeconomic stability of the country over the medium and long term. At the same time, the continuation of the improvement of financial conditions and easing of lending standards is expected to be an important incentive factor for private investments in the medium term. Economic sentiment index had a significant increase in the first nine months of 2021, following the significant positive improvements of the previous quarters. So there seems to be a clear, upward trend in the confidence and perception of economic agents about the performance of economic activity recently as well as their expectations in the near future.

More specifically, final consumption for the medium term (2022-2024) is projected to grow in real terms by around 2.9% in average per year, contributing by an average of 2.6 pp. per year to overall growth. While investments are projected to grow in real terms at an average of 3.2% per year, with an average contribution to GDP growth of 0.8 pp. per year.

Net external demand is expected to have only a moderate positive net effect. Exports of both goods and services (especially tourism) are definitely expected to have a good performance, but at the same time it is expected that imports will also have an increase (reflecting the increase in aggregate demand, especially investment), and consequently the contribution of net foreign demand in the medium term is expected to be positive again, but significantly more moderate than that of domestic demand. Exports of goods and services for the period 2022-2024 are projected to grow in real terms by an average of 5.8% per year, with an average positive contribution of 1.6 pp. per year to GDP growth. While imports of goods and services for this medium-term period are projected to expand by 2.4%, with a negative average contribution to total growth by about -1.0 pp. per year. Consequently, the net foreign demand is expected to have a slightly positive contribution to overall growth by an average of 0.7 pp. 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

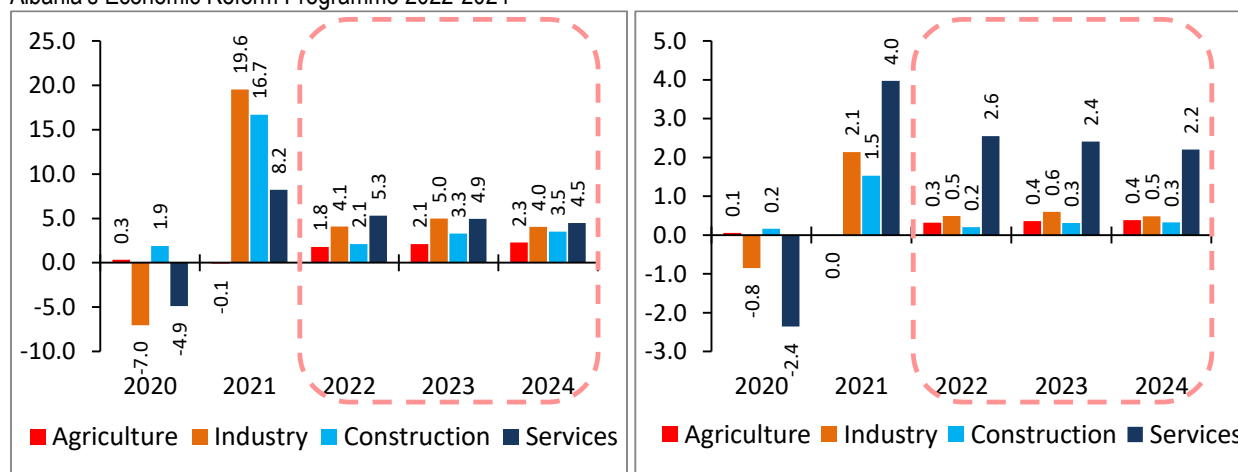
Table 3.2.1: Real growth (left, in %) and contribution to growth (right, in p.p.) by demand components:

	Real Growth (%)								Contribution to Growth (in p.p)							
	2018	2019	2020	2021 Est.	2022 Fore.	2023 Fore.	2024 Fore.		2018	2019	2020	2021 Est.	2022 Fore.	2023 Fore.	2024 Fore.	
1 Final Consumption (a+b+c)	2.9	3.1	-1.9	4.1	3.1	3.0	2.5		2.6	2.8	-1.7	3.9	2.8	2.7	2.3	
1.1 Final Consumption of the Households	3.1	3.2	-2.3	5.5	2.8	3.7	2.7		2.4	2.5	-1.8	4.5	2.2	2.9	2.2	
1.2 Final Consumption of General Government	0.7	2.9	1.6	-6.1	5.7	-2.0	0.9		0.1	0.3	0.2	-0.7	0.6	-0.2	0.1	
1.2.1 Individual consumption	-0.8	4.2	2.9	-7.7	5.4	-2.2	1.0		0.0	0.2	0.2	-0.4	0.3	-0.1	0.0	
1.2.2 Collective consumption	2.0	1.8	0.4	-4.7	6.1	-1.8	0.9		0.1	0.1	0.0	-0.3	0.3	-0.1	0.0	
1.2.3 Consumption of NPISHs	17.0	2.0	-12.0	11.2	2.0	2.0	1.5		0.1	0.0	-0.1	0.1	0.0	0.0	0.0	
2 Gross Fixed Capital Formation	2.3	-3.7	-2.0	19.9	2.3	2.6	4.9		0.6	-0.9	-0.5	4.6	0.6	0.6	1.2	
2.1 Public	9.2	0.0	7.1	28.4	-10.3	-12.4	6.5		0.5	0.0	0.4	2.0	-0.9	-0.9	0.4	
2.1.1 of which Central Government	14.6	-4.4	35.6	26.5	-12.1	-15.1	6.9		0.6	-0.2	1.6	1.7	-0.9	-0.9	0.3	
2.1.2 Private	0.4	-4.8	-5.0	16.1	8.6	8.7	4.3		0.1	-0.9	-0.8	2.6	1.4	1.5	0.8	
2.2 Domestic Absorption (1+2)	2.8	1.7	-1.9	7.2	2.9	2.9	3.0		3.2	1.9	-2.2	8.5	3.4	3.4	3.4	
2.3 Net export^a (a-b)	-1.0	1.5	1.8	-1.8	-4.8	-6.7	-3.8		0.2	-0.2	-0.2	0.3	0.7	0.8	0.5	
2.3.1 Exports of goods and services (f.o.b)	4.0	2.6	-28.2	31.7	4.7	6.5	6.1		1.3	0.8	-8.8	7.3	1.3	1.8	1.7	
2.3.1.1 Exports of goods	13.8	-8.5	-16.0	48.2	0.7	8.8	9.0		1.0	-0.7	-1.1	2.9	0.1	0.7	0.8	
2.3.1.2 Exports of services	1.3	6.2	-31.5	25.8	6.4	5.6	4.9		0.3	1.5	-7.8	4.4	1.3	1.1	1.0	
2.3.2 Imports of goods and services (f.o.b)	2.4	2.3	-19.1	18.7	1.6	2.4	3.2		1.1	1.0	-8.6	7.1	0.7	1.0	1.3	
2.3.2.1 Imports of goods	1.8	1.7	-5.8	21.4	1.4	2.7	3.3		0.6	0.5	-1.7	6.2	0.5	0.9	1.1	
2.3.2.2 Imports of services	3.5	3.4	-44.3	10.0	2.1	1.4	2.6		0.5	0.5	-6.9	0.9	0.2	0.1	0.2	
2.4 Change in inventories	-89.6	2738.4	0.0	0.0	0.0	0.0	0.0		-0.4	1.3	0.0	0.0	0.0	0.0	0.0	
2.5 Statistical discrepancy	-98.0	146.0	133.1	0.0	0.0	0.0	0.0		1.1	-0.9	-1.5	0.0	0.0	0.0	0.0	
2.6 GROSS DOMESTIC PRODUCT (3+4+5)	4.1	2.1	-4.0	8.7	4.1	4.2	3.9		4.0	2.1	-4.0	8.7	4.1	4.2	3.9	

Source: INSTAT, Ministry of Finance and Economy (2021)

From the optics of aggregate supply, it is expected that all main sectors are going to perform broadly in line with their average historical growth rates, as the shocks' effects fade away. Specifically, agriculture is expected to grow in real terms by 2.1% in average per year over 2022-2024, with an average contribution of 0.4 pp. per year; industry⁵ by an annual average of 4.4%, contributing in average by 0.5 pp. per year; construction by 3.0% with an annual average contribution of 0.3 pp.; and services by an average 4.9% per year with the highest contribution in growth also due to their larger share with an average of 2.4 pp. per year. Chart 3.2.2: Real growth (right, in %) and Contribution to growth (right in p.p) by supply components

⁵ Industry: include both mining and manufacturing industry



Source: INSTAT, Ministry of Finance and Economy

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.)							
	2018	2019	2020	2021	2022	2023	2024		2018	2019	2020	2021	2022	2023	2024	
				Est.	Fore.	Fore.	Fore.					Est.	Fore.	Fore.	Fore.	
1 Agriculture, forestry and fishing	1.5	0.6	0.3	-0.1	1.8	2.1	2.3		0.3	0.1	0.1	0.0	0.3	0.4	0.4	
2.1 Mining and quarrying industry	7.6	11.1	-26.8	21.7	5.3	5.7	4.5		0.2	0.3	-0.8	0.4	0.1	0.1	0.1	
2.2 Manufacturing industry	6.3	5.5	-5.7	17.2	4.1	5.2	4.1		0.4	0.3	-0.4	1.1	0.3	0.3	0.3	
2.3 Electricity, gas, steam and air conditioning supply	57.6	-11.5	12.7	32.2	3.2	4.3	3.9		1.1	-0.3	0.3	0.6	0.1	0.1	0.1	
2.4 Water supply; sewerage, waste management and remediation activities	12.0	7.8	2.1	4.7	3.5	3.4	2.9		0.1	0.1	0.0	0.0	0.0	0.0	0.0	
3 Construction	2.5	-2.2	1.9	16.7	2.1	3.3	3.5		0.2	-0.2	0.2	1.5	0.2	0.3	0.3	
4 Wholesale and retail trade; repair of motor vehicles and motorcycles	2.9	2.5	-8.0	8.1	5.2	4.9	4.9		0.3	0.3	-0.9	0.9	0.5	0.5	0.5	
5 Transportation and storage	2.7	1.2	-16.4	23.2	9.3	5.9	5.0		0.1	0.0	-0.5	0.7	0.3	0.2	0.2	
6 Accommodation and food service activities	14.3	14.1	-24.5	28.2	14.3	9.8	7.0		0.3	0.3	-0.7	0.6	0.3	0.3	0.2	
7 Information and communication	-4.5	3.9	-2.0	5.6	2.9	3.5	3.0		-0.1	0.1	-0.1	0.2	0.1	0.1	0.1	
8 Financial and insurance activities	2.9	13.6	-4.4	15.6	4.4	5.3	4.3		0.1	0.3	-0.1	0.3	0.1	0.1	0.1	
9 Real estate activities	-0.1	4.6	7.0	6.9	3.2	3.4	3.4		0.0	0.3	0.4	0.4	0.2	0.2	0.2	
10 Professional, scientific and technical activities	12.2	1.1	-9.9	3.1	5.2	4.7	4.6		0.4	0.0	-0.3	0.1	0.1	0.1	0.1	
11 Administrative and support service activities	1.7	10.3	-9.6	2.9	4.5	5.2	4.6		0.1	0.3	-0.3	0.1	0.1	0.2	0.2	
12 Public administration and defence; compulsory social security	0.1	2.1	0.9	4.1	4.5	4.4	4.1		0.0	0.1	0.0	0.2	0.2	0.2	0.2	
13 Education	0.1	2.7	0.2	4.3	4.6	4.6	4.7		0.0	0.1	0.0	0.2	0.2	0.2	0.2	
14 Human health and social work activities	6.0	9.0	7.5	4.9	4.8	5.1	3.7		0.2	0.3	0.2	0.2	0.2	0.2	0.1	
15 Arts, entertainment and recreation	-0.2	-50.0	-6.6	11.1	5.2	4.9	4.9		0.0	-0.5	0.0	0.1	0.0	0.0	0.0	
16 Other service activities	8.4	9.8	-6.8	7.7	5.3	5.1	4.7		0.1	0.2	-0.1	0.1	0.1	0.1	0.1	
17 GVA at basic prices	4.2	2.4	-3.4	8.7	4.1	4.2	3.9		3.6	2.1	-3.0	7.6	3.6	3.7	3.4	
17.1 Net taxes on products	3.4	0.1	-7.7	8.8	4.1	4.3	3.9		0.4	0.0	-1.0	1.1	0.5	0.5	0.5	
18 GDP at market prices	4.1	2.1	-4.0	8.7	4.1	4.2	3.9		4.1	2.1	-4.0	8.7	4.1	4.2	3.9	

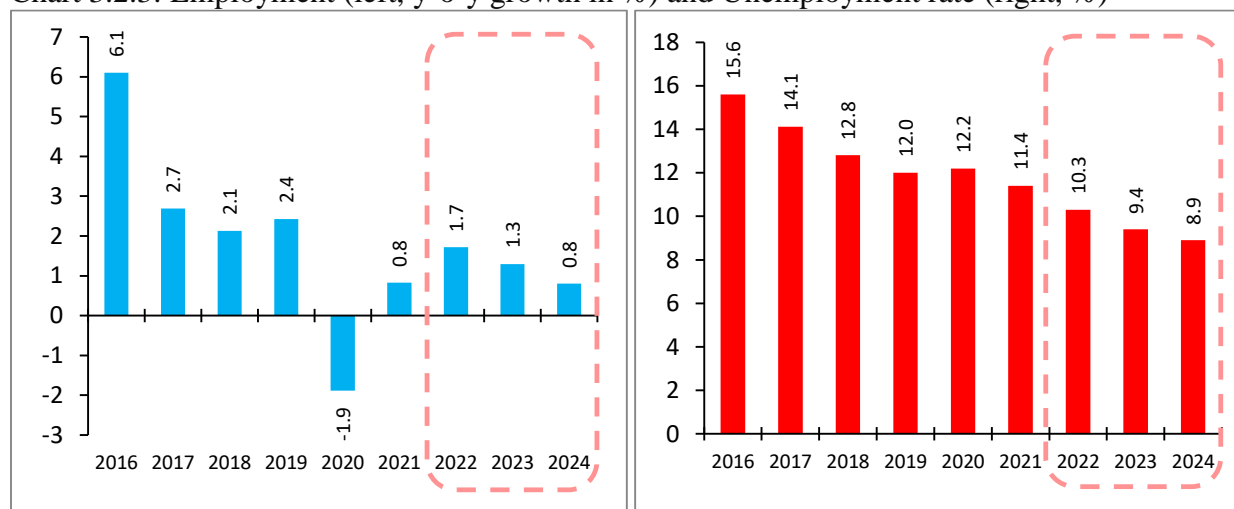
Source: INSTAT, Ministry of Finance and Economy

Economic growth has been accompanied by an increase in employment and a reduction in the unemployment rate. Both the manufacturing and services sectors have benefited from these developments, providing recovery for business and employment and creating good premises for the medium-term outlook. While 2020, resulted in a slight deterioration of the unemployment rate with an average level for the whole year of 12.2 percent, the 9 months of 2021 recorded again a slight deterioration of this indicator in the first quarter of the year and then a recovery in the second and third one. Referring to statistical data, the unemployment rate recorded the level of 12.6 percent in the first quarter and an improvement at 12.1 in the second quarter and at 11.6 in the third one. The average unemployment rate for the nine months of 2021 was 12.1 percent, compared with 12.3 percent in the 9 months of 2020. Regarding the number of employed persons for the Q3-2021, compared to the previous quarter (Q2-2021) increased by 2.13%. Whereas, compared to the same quarter of the previous year (Q3-2020), the number of employed persons increased only marginally by 0.21%.

In line with the medium-term growth projections, employment is expected to grow by an average of 1.3% per year over the period 2022-2024. 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 8.9% in 2024.

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



Source: INSTAT, Ministry of Finance and Economy

Monetary and exchange rate policy and inflation

The main objective of the Bank of Albania is to achieve and maintain price stability according to its legal mandate. In order to fulfil this objective, 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 of the monetary policy stance defined to achieve the target is the interest rate applied in reverse repo operations with one week 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 a pre-announced publicly available schedule.

The Bank of Albania increased its monetary stimulus at the advent of the Covid-19 crisis, in March 2020, by lowering the policy rate by 50 basis points to 0.50%, its historical minimum, and offering unlimited liquidity to the banking system, in the weekly open market operations. This expansionary monetary policy stance remained unchanged for 2021. The Bank of Albania's forward guidance indicates that the monetary policy will remain broadly accommodative over the medium term, with a gradual policy normalization expected to begin during not earlier than the first half of 2022. The expansionary monetary policy stance, coupled with a clear and transparent forward guidance signaling of the future monetary policy trajectory, have managed to maintain financial markets calm throughout the downturn in 2020 and helped reduce economic agents' uncertainties on the economic outlook going forward.

After the economic contraction of 2020, the economy is on track for a rapid rebound across all sectors and demand components in 2021. Economic activity has moved beyond the pre-earthquake and pre-pandemic level and current economic information indicates no discernible long-term scarring of the economy from these strong adverse shocks. With improving cyclical conditions, domestic inflationary pressures have continued to strengthen, which coupled with higher commodity prices in international markets, have led to an acceleration of headline inflation.

The Bank of Albania's baseline projection expects the economy to rebound sharply in 2021, aided by the macroeconomic stimulus and an improved foreign demand, and thereafter to move to a sustainable growth trajectory close to its potential. Because of improving cyclical conditions, domestic inflationary pressures are expected to strengthen further supporting the sustainable convergence of inflation to target by 2022 and on. The trajectory of headline inflation in the short-term will reflect the impact of supply shocks from higher international prices hitting domestic production costs. As a result, headline inflation is expected to accelerate in the short-term.

The balance of risks appears tilted on the upside in the short term and balanced in the medium term. On the one hand, a faster or prolonged increase of prices in international markets and a slower consolidation pace pose upside risks to inflation. On the other, a slower recovery of global economy poses downside risks to inflation.

The current policy mix encompasses a combination of monetary and fiscal stimuli, dictated by the necessity to ensure a healthy economic recovery. As the latter continues and activity remains on a solid footing, these macroeconomic stimuli will need to start to be gradually withdrawn.

Under the baseline scenario, the monetary policy normalization will reflect the underlying recovery of demand-driven inflationary pressures, with supply –side shocks expected to have only a transitory impact. This scenario assumes the normalization to start around Q1-2022 and its pace to be gradual. However, if the adverse supply shocks in the form of higher commodity, transport and energy prices in international markets are perceived to be more robust or long-lived, the BoA will strengthen the pace of policy normalization, in line with its inflation mandate.

External sector and its medium-term sustainability

Balance of Payment and merchandise trade developments

The current account deficit has decreased annually by 16.7% in the first nine months of 2021, standing at around 6.1% of nominal GDP. A year ago, this ratio was 8.4%. This improvement has reflected recovery in both domestic and foreign demand, particularly visible in the second quarter of the year, when service flows growth rates also moved to positive territory. Indeed, the rebound started early in the case of merchandise trade, as higher domestic and foreign demand expanded the need for commodities leading to higher exports and imports. On the other hand, restrictions to international travel remained mostly in place inhibiting service (particularly tourism related) to pick up. The higher imports dependency (compared with exports) in the case of commodities, led initially to a deterioration of the trade balance. In the second quarter of 2021, restrictions to international travel were relaxed and service flows skyrocketed (hitting triple-digits), offsetting somewhat the expansion of the merchandise trade deficit. Increasing service flows and higher remittances caused the overall current account deficit to shrink.

Lek appreciated by 2.4% yoy on average in 2021, at a similar rate as in 2020. The large appreciation figure for December is caused by the massive depreciation of Turkish Lira. The diversion versus the nominal appreciation (4.0% for 2021) reflects the slower increase in home inflation compared to inflation in partner countries.

Commodity trade flows have overall recovered throughout 2021, after the shock of last year. Almost all commodity groups have surpassed the pre-pandemic levels, with the only exception being “Textiles”. After the drop in 2020, this group has continued to struggle in 2021 due to the poor performance of garment and fashion sector in Italy, the major importer of Albanian ready-made textiles. As the sector has still faces difficulties due to local restrictions, so does its import’s demand.

Chart 3.2.7: Trade openness, exports, imports and Net FDI as percentage to GDP

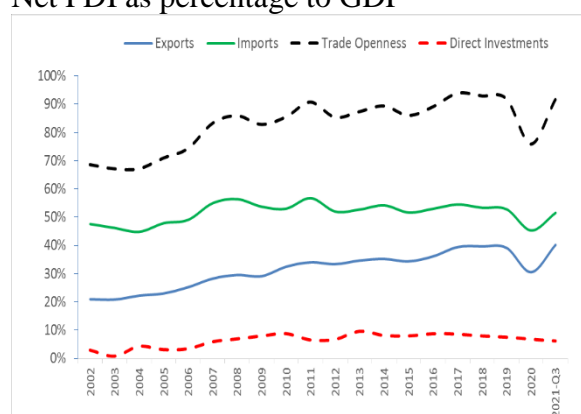
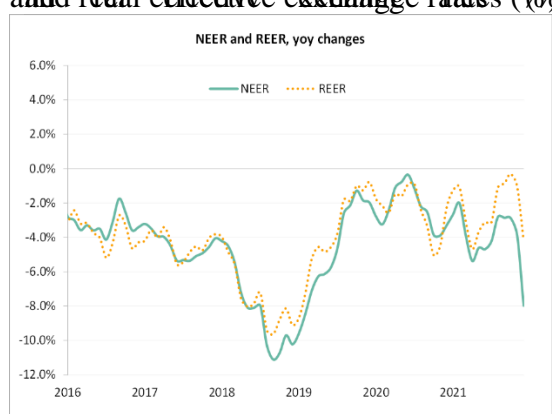


Chart 3.2.8: Annual changes of nominal and real effective exchange rates (%)



Source: Bank of Albania, INSTAT

According to the Constant Market Share (CMS)⁶ decomposition of Albanian exports, falling world exports has been the leading contributor to diminishing exports towards the EU-15 area in 2020. Competitiveness stands in pursuit with some minor negative contribution from commodity composition. The fall on world exports is the main contributor for shrinking Albanian exports towards CEFTA countries, with minor negative

⁶ See <http://go.worldbank.org/KQCHUD4JN0> for a discussion on CMS.

contributions from commodity composition and market distribution. However, in this case, competitiveness produced a positive impact serving as a buffer.

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

	2020	
	EU-15	CEFTA
World Export Growth	-162.4	-41.0
Commodity composition	-0.6	-6.7
Market Distribution	26.2	-5.4
Competitiveness	-68.3	31.2
Total	-205.1	-22.0

Source: Bank of Albania, INSTAT, UN Comtrade

The service surplus has bounced back from the severe shock of 2020. Travel (tourism) receipts were the main driver of the rebound. The relaxation of travel restriction, in particular during the second quarter of 2021, facilitate service flows. As a result, service exports have expanded 61.2% annually in first nine months of 2021 and by 165.5% and 80.8% in 2021Q2 and 2021Q3 respectively. Service imports increased annually by 44.4% in the first nine months of 2021. As a result, the overall service surplus has increased annually by 80.7% during the same period. Travel statistics suggested increased shares from Kosovo arrivals, and in both 2021Q2 and 2021Q3, export levels have even exceeded pre-pandemic levels (2019). However, a gap compared to pre-pandemic levels remains the case of imports, as the restrictions abroad are tougher than at home.

The primary income deficit expanded annually by nearly EUR 63.8 million in the first nine months of 2021, further adding to the deterioration of 2020. This is predominantly related to higher investment income outflows (associated with direct investment). On the other hand, “employee compensation” inflows have not yet recouped, as domestic seasonal workers still face restriction when travelling abroad for work.

The secondary income surplus increased annually by 13.3% in the first nine months of 2021 on the back of rapidly growing remittances’ inflows. Their annual growth stood at 14.6% for whole period rising to 41.8% in Q2. Remittances already featured high growth rates (close to double digits) in the second half of 2020, upscaling from the dismay experienced in 2020Q2. Emigrants have been increasing their remittances to assist their families throughout the difficult times. The rapid growth in Q2 also includes a strong base effect from last year.

As the situation improves further, the external trade and financial flows are expected to continue the recovery in the last quarter of the year, though at a slower pace. Services are expected to maintain their momentum albeit featuring slower growth. The income sub-account is also expected to improve supported by ongoing remittances growth. Based on expectations for continued recovery in the domestic and foreign economy the overall current account deficit is to return to pre-pandemic levels in 2022. There are of course uncertainties attached. Albania has slightly expanded restrictions on international travellers since September in response to increased Covid-19 cases. Additionally, major trade partners have also re-instituted their own restrictions which have culminated in December on the back of rising fears from the Omicron variant. These measures are expected to have an impact on Albania’s inbound tourism in the immediate future.

Net foreign direct investments have been affected by the global pandemic crisis over the past couple of years. The annual growth rate of net liabilities stood at 1.0% in the first nine months of 2021. Along with the hit from the pandemic, the completion of TAP project has been a major factor for the poor performance of FDIs. On the other hand, inflows have increased elsewhere with positive contributions associated primarily with “Mining”, “Trade”, “Real Estate” and “Construction”. Additionally, major projects (including the Port in Durres) are expected to provide additional boost to the FDIs in the future.

Portfolio investment have generally reflected net-assets during the first nine months of 2021. Deposit-taking corporations have mostly expanded their foreign portfolios. At the same time, the general government has been executing repayments associated with pas Eurobonds.

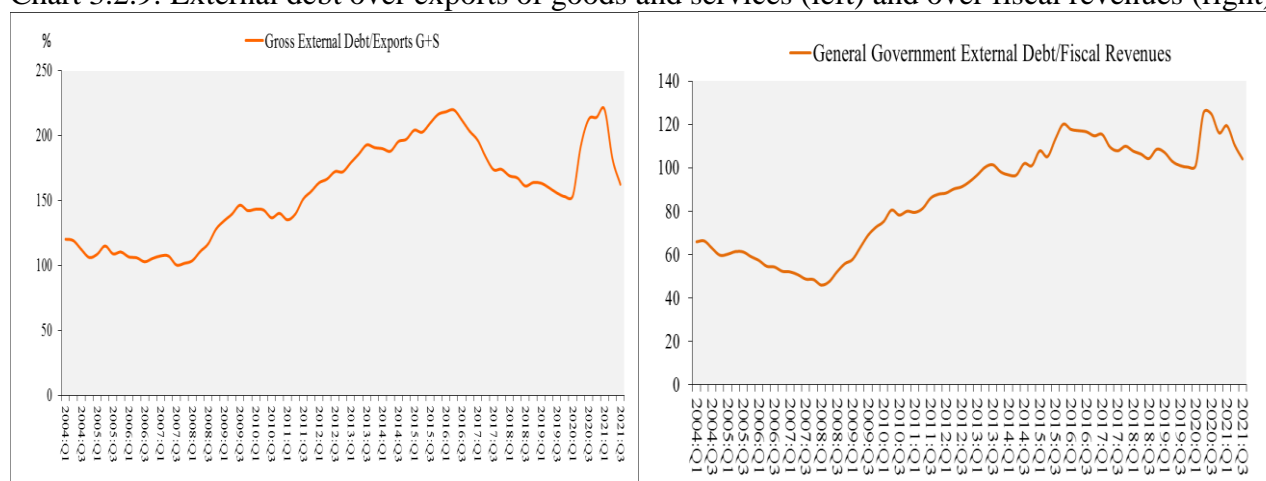
External Debt developments

The external debt has been on a declining trend since the first half of 2021 (on GDP ratio terms). The stock stood at EUR 8,972.7. million in Q3, increasing by 5.0% annually. The debt to GDP ratio has also diminished

to 61.8%, down from 68.1% in 2020Q3. The drop reflects the decline of the General Government debt as a result of repayment of past Eurobonds. Long-term debt constitutes nearly 92.0% of total gross debt composed primarily of long-term loans to the general government and other sectors⁷. Short-term debt stands at around 8.0% of total debt consisting mainly on deposit-taking corporations “currency and deposits” and “trade credits”.

The long-term repayment capacity indicators returned to improving trends since 2021 Q2, reversing the negative dynamics which started in 2020Q1 and culminated in 2021Q1. The ratio of gross external debt over exports of goods and services fell to 162.6% in Q2, down from 220.4% in 2021Q1. Additionally, the ratio of external debt stock over fiscal revenues declined to 225.2% in Q3 from 247.7% in 2021Q1. The ratio of the general government's debt stock over fiscal revenue dropped to 104.1% in 2021Q3, down from 119.4% in 2021Q1. Liquidity adequacy indicators have also improved showing low pressures from short-term obligations.

Chart 3.2.9: External debt over exports of goods and services (left) and over fiscal revenues (right)



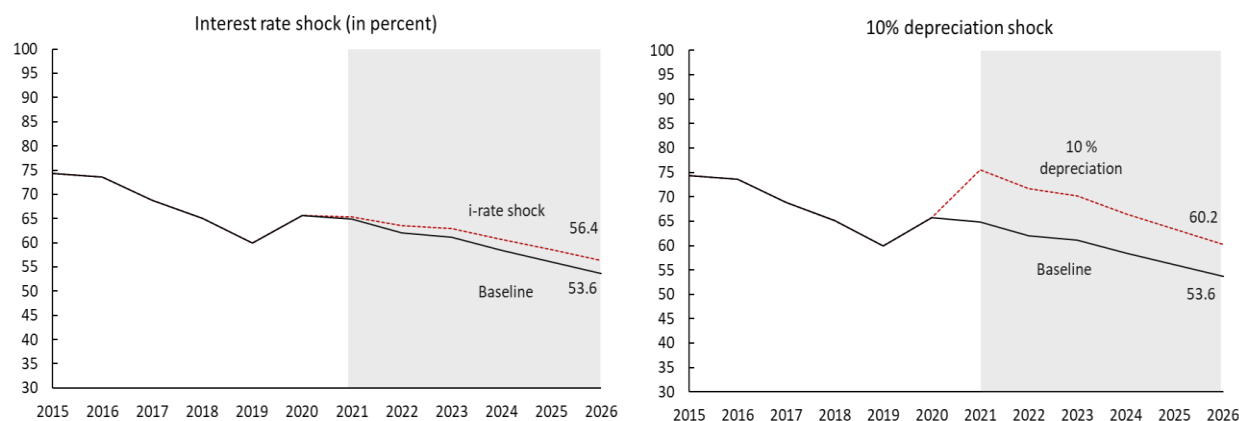
Source: Bank of Albania

In our baseline scenario for 2021, we expect the gross external debt to remain at 65% to GDP, a ratio similar to 2020. This estimation implies a rapid expansion of gross external debt due higher public sector borrowing. Hence, despite the projection for a fast rebound of the economy in 2021, the ratio of the gross external debt to GDP compared to 2020 remains largely unchanged. Over the medium-term, we project a continuous decrease of the gross external debt to GDP in reflection of an expected fiscal consolidation trajectory, which in turn should decrease external financing needs.

This projection is surrounded by a range of upward risks, several of which we include in our external debt sensitivity analysis. Here, we simulate an interest rate and an 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 whereas in the second scenario the domestic currency is shocked by a one-off depreciation of 10% in the first period. Simulation results indicate that the deterioration of the external debt position is stronger under the 10% depreciation scenario when compared to the baseline projection.

⁷ Recently, External Debt Statistics by maturity have undergone certain revisions. Due to better statistics, a portion of external debt associated with non-resident deposits has been re-assigned to Long-term maturity. That has caused a surge in the long-term debt share at the expense of short-term debt. This has affected certain ratios associated with short-term debt including Reserve ratios as will be shown further below.

Chart 3.2.10: Gross External Debt to GDP at baseline and under risk scenarios: nominal interest rate shock (left) and real depreciation shock (right)

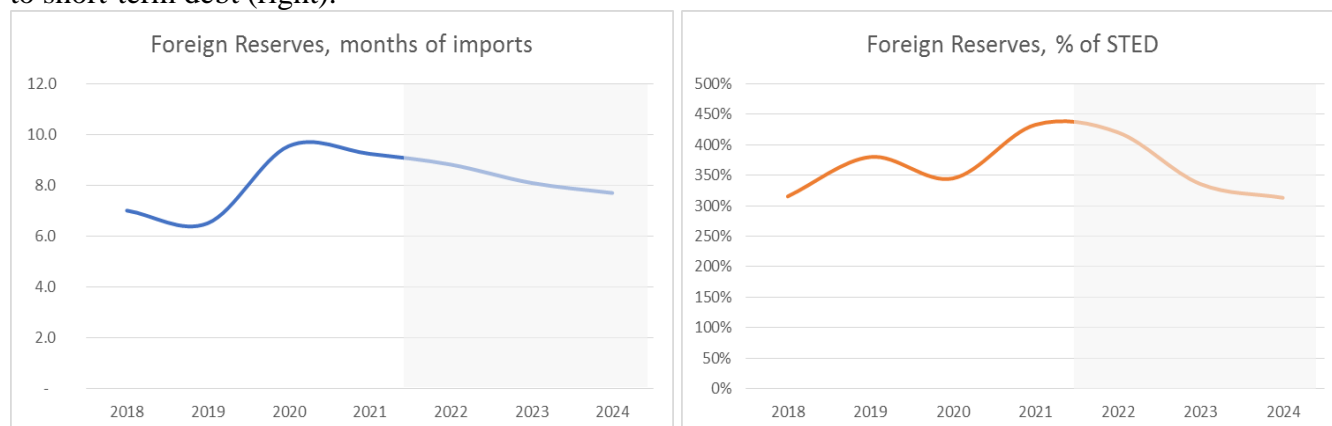


Source: Bank of Albania

Reserve stock developments⁸

The Bank of Albania optimizes its international reserves in order to balance potential future risks and costs associated with holding reserves. The assessment of reserve adequacy is based on a solid framework having in mind these principles. BoA applies minimum threshold levels for reserve adequacy based on two 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. As of December 2021, the stock of gross international reserves is around EUR 4.98 billion, or approximately 34.0% of GDP. This level is more than enough to cover 9 months of imports of goods and services and 4 times the short term external debt. Both these criteria are expected to remain well above their minimum adequacy levels in the medium run.

Chart 3.2.11: Projection of international reserves relative to imports of goods and services in months (left) and to short-term debt (right).



Source: Bank of Albania

Financial Sector

The aggregate balance sheet of the financial institutions has continued to expand in nominal and relative terms over the first 9 months of 2021. The expansion has been particularly strong in the balance sheet of the domestic banking sector. The share of financial system assets to GDP increased by 4 p.p. to 122.5% compared to 118.5% at end-December 2020. Growth relative to GDP has been observed in the industry of nonbank financial institutions, investment funds and pension funds. On the other hand, the share of the balance sheet of savings and loans associations and insurance companies to GDP has remained unchanged from the levels recorded at the end of 2020.

⁸ Data on reserve ratio to short term debt are recalculated according to revisions in short term debt statistics.

Table 3.2.4: Assets of the financial system to GDP

Supervisory Authority	Bank of Albania			Financial Supervision Authority			Financial intermediation
Financial system	Banking sector	NBFIs	SLAs and Union	Insurance companies	Pension funds	Investment funds	
2011	88.1	2.7	0.8	1.5	0.0		93.1
2012	92.1	2.7	0.8	1.6	0.0	1.2	98.6
2013	94.8	2.7	0.7	1.7	0.0	3.9	103.8
2014	97.6	3.0	0.8	1.9	0.0	4.8	108.2
2015	97.3	2.9	0.8	2.1	0.1	5.0	108.0
2016	100.5	3.0	0.6	2.1	0.1	4.7	111.0
2017	99.4	3.1	0.6	2.1	0.1	5.0	110.3
2018	96.0	3.5	0.6	2.1	0.2	4.5	106.9
2019	95.5	4.2	0.7	2.2	0.2	4.3	107.2
2020	105.9	4.5	0.8	2.6	0.2	4.5	118.5
2021*	109.5	4.7	0.8	2.6	0.3	4.6	122.5

Source: Bank of Albania, INSTAT, Financial Supervisory Authority, * September 2021

The balance sheet of the banking sector has expanded by 11% from end October 2020 to end October 2021. On the assets side, the annual growth was equally supported by strong growth in the three main asset classes. The stock of banks' securities holdings and the stock of treasury and interbank exposures expanded by 15% and 8% whereas the stock of outstanding bank loans increased by 11%. The structure of banks' securities holdings is dominated by Albanian Government papers in ALL (60%) and foreign currency (10%), and the remaining 30% consists of foreign currency securities issued by non-residents. Assets in foreign currency and claims on nonresidents constitute about 52% and 23% of total assets and increased by 13% and 16% y-o-y as at end - October 2021. Banks' liabilities and assets in foreign currency are comparable in size, whereas claims on nonresidents are about 8 times higher than liabilities to non-residents. The main source of financing for domestic banks is in the form of deposits, which stood at ca. ALL 1,400 bln at end – October 2021. Deposits recorded a strong growth over the first 10 months of 2021 and growth peaked during the third quarter, owing to a marked increase in foreign currency deposits. Current accounts and, to a smaller extent, sight deposits have continued to grow, while the decline in the time deposits came to a halt in the summer months and was followed by a modest increase in September and October. At the end of October 2021, time deposits comprised about 44% of the overall stock of deposits, which shows a significant decline compared to the ratio of 51% at the end of 2019 and that of 47% at the end of 2020.

Table 3.2.5: Growth in the stock of credit and deposits

	2014	2015	2016	2017	2018	2019	2020	2021*
Loans (yoy,%)	5	-2	2	0	-3	-1	6	11
Deposits (yoy,%)	5	3	5	1	1	1	8	11
Loans/Deposits (%)	56	54	52	52	49	48	47	47

Source: Bank of Albania, *October 2021

At the end of October 2021, the stock of outstanding loans was ALL 660 bln from ALL 590 bln in October 2020 and the annual growth rate was equal to 11%. Bank credit grew at a steady rate over the 12 months up until October 2021, but the nominal (ALL +60 bln) and the average y-o-y growth (+6%) in the stock of loans were less than the respective changes in deposits. The rates of growth in the loan portfolios by institutional sector (households and enterprises) and by currency (ALL and foreign exchange) were comparable, but in terms of maturity, the growth in the loans stock is linked to the growth in long-term and real estate loans portfolio. Real estate loans comprise 22% of the overall loans portfolio from 20% and 21% in, respectively, December 2019 and December 2020 and the growth rate of real estate loans portfolio in the third quarter of 2021 was 12%. The high growth in this segment of the loan portfolio may be linked to higher demand and more relaxed lending conditions especially for mortgages to the household sector. The results of the Bank Lending Survey for the third quarter of 2021, suggest that both demand and supply of loans have picked up compared to the previous quarters reflecting improved macroeconomic conditions and stronger business and

consumer confidence. The number of loan applications for investment and liquidity purposes from the household and business sector was higher and the rejection rate lower than in the preceding quarters. At the same time banks have relaxed their credit standards and plan to continue to do so over the last quarter of the year, as demand for loans is expected to remain robust.

The capitalization of the banking sector up until the end of the third quarter 2021 remained adequate despite a slight decline in the capital adequacy ratio to 18.3% from 18.7% at end December 2020 and 18.6% at the end of September 2020. The decline in the ratio was caused by the increase in the level of risk-weighted assets. Banks remained profitable over the period January - October 2021 and overall profit and profitability ratios were higher than in 2019 and 2020. More than half of the banks including the systemically important banks had higher profits compared to the profits recorded over the first 10 months of 2020. The net result of the activity of the banking sector rose by 40% to ALL 18 bln from ALL 13 bln in 2020 and return on assets (RoA) and return on equity (RoE) reached 12.8% and 1.3% from 9.6% and 1% at the end of October 2020. About 65% of the net profit is generated by activities in foreign currency, but the volume of this part of the profit remained unchanged from the previous year, while the profits in ALL were 5 times higher (from ALL 1.2 bn to ALL 6 bn). The significant increase in the banks' net result is linked to the improvement in the net interest income as well a considerable decline in loan loss provision expenses. The results of the Solvency Stress Test covering the 2021 – 2022 horizon show that the banking sector remains resilient to potential macroeconomic shocks, although some banks may face the need to strengthen their capital positions.

Credit risk has declined significantly during 2021 and the non-performing loans (NPL) ratio dropped to 6.35% in October 2021, reaching the lowest level since 2009. The improvement was observed in almost all loan categories, and resulted from both the decrease in non-performing loans stock and the increase in outstanding credit. Compared to a year ago, the stock of non-performing loans shrank by 15% or ALL 8 bln, while the NPL ratio decreased by about 1.9 p.p. The strongest decline was recorded in non-performing loans in foreign currency (-22%), and in the stock of business and short-term loans (-18%). The decline in the stock of non-performing loans, in order of contribution, was driven by higher repayments in the first two classes of non-performing loans; the restructuring of a part of non-performing loans; and the removal of lost loans from the banks' balance sheets. The fall in the stock of "substandard" and "doubtful" loans, along with the considerable decline in the flow of new non-performing loans played a significant role towards the improvement of credit quality. The structure of non-performing loans is dominated by the category of lost (52%), while doubtful and substandard loans account for 21% and 27% of the total, respectively. The increase in the weight of lost loans within the stock of non-performing loans over the past few years is linked to the fact that the decline in the stock of the other two NPL classes has been more rapid than the decline in the stock of lost loans.

Macprudential supervision

In the interest of improving transparency, accountability and communication, in May 2021, BoA released a document which aims to inform the public on the implementation of macroprudential policy in Albania. The main topics covered in the document are: a) financial stability and macroprudential policy; b) the institutional framework of macroprudential policy in Albania; c) the identification and assessment of systemic risks; d) the implementation of macroprudential policy in Albania and e) communication and accountability. This document offers a more practical and detailed view of the intermediate objectives and policy instruments compared to the Strategy of the Macroprudential Policy (August, 2017), and focuses on the macroprudential measures that have been applied in Albania following the BoA approval of the Regulation "On Macroprudential Capital Buffers" in June 2019 (the Regulation).

The Regulation provides the basis on which BoA applies the three capital buffers (conservation, countercyclical and systemic importance buffer) in the periodicity and rates foreseen in the Regulation and supported by the accompanying methodologies. The countercyclical capital buffer is announced at the end of each quarter through a Governor's decision. The decision on the list of systemic important banks and on the buffers for systemic importance is announced once a year at the end of the first quarter. The capital conservation buffer is set according to the timeline and rates foreseen in the Regulation. The position of each bank against the macroprudential capital buffers requirements is assessed every quarter through a special reporting package and a dedicated report. The requirements applicable up until January 1st 2022 are presented in the table below.

Table 3.2.6: Presentation of macroprudential capital buffers that must be fulfilled until January 1st 2022.

No.	SHMAK (Macroprudential Capital Buffer)	Bank		Deadline for fulfillment
		<i>BARS (Systemic Banks)</i>	<i>Non – BARS (Non – Systemic Banks)</i>	
1	SIST (Systemic Importance Buffer)	As laid out in Governor's Decision 1767/2021, but up to 1.5% for 2022 <i>List of BARS</i> 1. BKT (National Commercial Bank) 1.0% 2. BR (Raiffeisen Bank Albania) 1.0% 3. BC (Credins Bank) 1.0% 4. ISPBA (Intesa San Paolo Bank Albania) 0.5% 5. OTP (OTP Bank Albania) 0.5%	Not applicable	January 1st 2022
2	KONS (Conservation Buffer)	1.5%	1.5%	January 1st 2022
3	SPEKUNC (Specific Conservation Buffer for a bank)	As laid out in Governor's Decision 4217/2021 and based on bank's calculations (but not higher than 1.875% for 2022)	As laid out in Governor's Decision 4217/2021 and based on bank's calculations (but not higher than 1.875% for 2022)	September 30th 2022
4 = 1+2+3	SHKOMAK (Combined macroprudential capital buffer (Combined Macroprudential Capital Buffer))	KONS (1.5%) + SIST (0.5% or 1.0% or 1.5%) + SPEKUNC	KONS (1.5%) + SPEKUNC	

Source: Bank of Albania, 2021

The main tool used by BoA to assess developments in systemic risks against the intermediate objectives of the macroprudential policy is the Quarterly Macroprudential Risks Heatmap (for internal use only). Indicators are structured and grouped according to the four intermediate objectives, as linked with the specific risks and the developments in each of the core indicators vis a vis the thresholds, inform internal discussions and macroprudential decision making.

According to the latest analysis (Q3-2021) the Macroprudential Risks Heatmap indicates that there are no significant risks linked to excess credit growth, concentration in the banking sector activity, and size of systemic institutions. The report concludes that the measures that are already in place are sufficient and adequate to address current risks and that there is no need for additional measures. The report underlines the need (for the macroprudential authority) to closely and carefully monitor the developments in the maturity gaps, degree of euroization and exposures of the banking sector to the real estate market, in the context of rising real estate prices and strong growth in lending for real estate purchase and investment. In this regard, BoA is close to finalizing its assessment of the banking sector practices with regard to real estate loans (the use of LTV ratios) as well as a guideline that will help banks to harmonize and align their practices. At the same time, BoA is working on the framework for the operationalization of the systemic risk buffer.

The banking sector resolution framework as part of the financial sector reforms

Bank of Albania in the capacity of the Resolution Authority has continued to develop the regulatory framework in banks resolution area, has finalized the third cycle of resolution planning and has followed the necessary steps to build-up the Resolution Fund. During 2021, a new regulatory requirement entered into force, dealing with minimum requirement for regulatory capital instruments and eligible liabilities that banks should build to absorb the losses and recapitalize in case of resolution, with no public aid.

Development in the banking sector resolution framework in 2021

Regulatory and methodological framework

During 2021, aiming to the alignment with the EU legislation in order to complete the regulatory and implementation framework for bank resolution, the Bank of Albania approved:

- by decision no.20, dated 04.07.2021 of the supervisory Council, the Regulation "On contractual recognition

of write-down and conversion powers”, which is aligned with the European Commission Regulation 2016/1075/EU of March 2016, supplementing Directive 2014/59/EU of the European Parliament and of the Council. This regulation determines the content of contractual clauses regarding contractual recognition of write-down and conversion powers,

- by decision no.33, dated 07.07.2021, of the supervisory Council, the Regulation "On the establishment and operation of the asset management company" which is prepared based on European best practice,
- by decision no.34, dated 07.07.2021, of the supervisory Council, the Regulation “On the criteria for setting the rate of conversion of liabilities into capital”, in alignment with EBA/GL/2017/03 of 11 July 2017 pursuant to Article 50(4) of Directive 2014/59/EU (the BRRD), on the setting of conversion rates of debt to equity in bail-in. This regulation specifies the criteria for rates of conversion in capital of the bank liabilities using the write-down and conversion powers or during implementation of bail-in tool,
- by decision no.35, dated 07.07.2021, of the supervisory Council, the Regulation “On classes of arrangements to be protected in a partial transfer”, in alignment with the Commission Delegated Regulation (EU) 2017/867 of 7 February 2017, on classes of arrangements to be protected in a partial property transfer under article 76 of Directive 2014/59/EU of the European Parliament and of the Council. This regulation determines the conditions concerning the types of agreements to be protected in partial transfers of assets and liabilities of a bank under resolution.
- Following the provisions of Regulation no.78/2020 "On the minimum requirements for regulatory capital instruments and eligible liabilities" Bank of Albania drafted the methodological document for 2021, to determine the way of calculation of the minimum requirements for regulatory capital instruments and eligible liabilities – MREL, for banks, based on the SRB (Single Resolution Board) MREL Policy under the Banking Package in the 2020 resolution planning cycle.

Resolution planning

Bank of Albania has continued to further develop the resolution plans and communicate with systemic banks, to monitor how they satisfy the recommendations delivered by the Bank of Albania as the Resolution Authority, to remove potential impediments to resolvability, as identified with the resolution planning cycles. For 2021 planning cycle, the resolution plans are further supplemented in addition to updating various sections of the plan such as, strategic analysis of the bank's business, identification of critical economic functions, analysis of critical internal and external interdependencies, infrastructure and critical systems, the resolution plans provide a deeper analysis with regard to the selection of preferred resolution strategy and the resolution tool, etc. They provide a better, comprehensive assessment and more information regarding the credibility and feasibility of normal insolvency proceedings, assessing whether resolution meets the public interest test.

Following the methodology for setting MREL, the resolution plans for year 2021 contain the intermediate target level of the minimum requirements for regulatory capital instruments and eligible liabilities – MREL to be met in 2022, and final target level to be met up to 2027, for each individual bank. As required by the regulatory framework, for 2021 resolution planning cycle, Bank of Albania set the target and intermediate MREL levels for each individual bank and communicated these decisions to them.

The individual resolution plans concludes with the resolvability assessment, which deals with the identification of potential impediments to resolvability. Once the potential impediments to resolvability are identified, Bank of Albania keeps a regular communication with them to remove these impediments accordingly with the work plan agreed.

As a cooperation arrangement between the Bank of Albania and the Single Resolution Board (the “**SRB**”) was signed in October 2018 (the “**Cooperation Arrangement**”), 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, the Bank of Albania was invited by the SRB to participate in resolution college meetings, involving banking entities with subsidiaries operating in Albania.

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 6.64 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.

The Bank of Albania updates the target level of the Resolution Fund and the annual contribution of banks on yearly basis. For the current year (2021) Bank of Albania has updated the target level of the Resolution Fund and the annual contribution of banks, which have been paid within regulatory deadline.

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, 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. As of end of September 2021, the resolution fund was ALL 2.7 billion, invested in current accounts and short-term deposits in Bank of Albania and Government treasury bills and bonds.

3.3. Alternative scenarios and risks

The baseline scenario is estimated to have a relatively high chance to materialize in overall. However, the forecasting of alternative scenarios - assuming that a reasonable part of various risks surrounding the baseline scenario might materialize – is an important component of public finance planning. In order to increase the quality of planning, to have a more efficient management of public funds in any situation that has a certain probability to occur, below are briefly presented two alternative scenarios, specifically a "pessimistic" and an "optimistic" one. Each of the alternative scenarios assumes that a set of negative (in case of a "pessimistic" scenario) or positive risks (in case of an "optimistic" scenario) will materialize. This set of risks assumes deviation from the respective forecasts of baseline scenario for some key macroeconomic indicators, including lending to the economy, the performance of the Eurozone economy with the consecutive effects on the exports of goods and services, on remittances, on various foreign capitals flows as well as exchange rate, interest rate, the pace and the impact of structural policy reforms planned for the medium term period ahead, etc.

For the simplicity of the analysis (modelling), the overall net effect of all the assumed, negative or positive risks is imposed as an initial shock in terms of one single variable, "real economic growth". Therefore, the alternative scenarios are based on different economic growth assumptions from the baseline for each year 2022 – 2024(26). In this section as well as the other related section 4.7 (Sensitivity analysis), in order to have a more comprehensive and useful picture and coping approach under each alternative scenario, we extend the simulation time horizon up to 2026. The following table presents the "real growth" assumptions in the alternative scenarios, the derived nominal growth and nominal GDP level as well as some other assumptions (assumed implications) on certain key fiscal variables which are explained in section 4.7.

We give considerably more importance to the "pessimistic" scenario and possible coping under its implications. We asymmetrically introduce a greater negative shock in this scenario as compared the opposite positive shock magnitude we introduce in the "optimistic" one. We assume that in the "pessimistic" scenario the real GDP growth will be 1.5 p.p. lower in each year (2022-2026) than the respective growth projections of the "baseline". Whereas in the "optimistic" scenario we assume the real growth will be 0.5 p.p. higher in each year than what we respectively forecast in the "baseline" scenario.

Table 3.3.1: Alternative assumptions in each scenario

	2016	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Real GDP growth (%)											
<i>Baseline</i>	3.3	3.8	4.1	2.1	-4.0	8.7	4.1	4.2	3.9	3.9	4.1
<i>Pessimistic</i>							2.6	2.7	2.4	2.4	2.6
<i>Optimistic</i>							4.6	4.7	4.4	4.4	4.6
Nominal GDP growth (%)											
<i>Baseline</i>	2.7	5.3	5.6	3.4	-4.4	9.4	5.5	5.2	5.4	5.4	5.3
<i>Pessimistic</i>							4.0	3.7	3.9	3.9	3.8
<i>Optimistic</i>							6.1	5.7	5.9	5.9	5.8
Nominal GDP (billion Lek)											
<i>Baseline</i>	1,472.5	1,550.6	1,636.7	1,691.7	1,617.5	1,769.3	1,867.4	1,964.8	2,070.9	2,183.2	2,299.4
<i>Pessimistic</i>							1,840.4	1,908.6	1,982.6	2,060.0	2,138.3
<i>Optimistic</i>							1,876.3	1,983.7	2,100.8	2,225.4	2,355.1
Total revenue (% of GDP)											
<i>Baseline</i>	27.6	27.8	27.5	27.2	26.3	28.6	28.7	29.0	29.1	29.2	29.3
<i>Pessimistic</i>							28.2	28.5	28.6	28.7	28.8
<i>Optimistic</i>							28.8	29.0	29.1	29.2	29.3
Total revenue y-o-y growth (%)											
<i>Baseline</i>	7.3	5.7	4.5	2.3	-7.5	19.0	5.9	6.1	5.6	5.8	5.7
<i>Pessimistic</i>							2.6	4.6	4.1	4.3	4.2
<i>Optimistic</i>							6.6	6.6	6.1	6.4	6.3
Total revenue (billion Lek)											
<i>Baseline</i>	407.0	430.4	449.9	460.3	425.9	506.9	536.8	569.7	601.8	637.0	673.6
<i>Pessimistic</i>							519.9	543.9	566.2	590.7	615.7
<i>Optimistic</i>							540.3	576.2	611.6	650.4	691.1
Effective interest rate of public debt (%)											
<i>Baseline</i>	3.7	3.2	3.5	3.3	3.2	3.1	3.3	3.8	4.2	4.4	4.5
<i>Pessimistic</i>							3.3	3.8	4.2	4.4	4.5
<i>Optimistic</i>							3.3	3.8	4.2	4.4	4.5
Nominal exchange rate, end-year (Lek/Euro)											
<i>Baseline</i>	135.3	133.2	123.5	122.2	123.5	121.0	121.0	121.0	121.0	121.0	121.0
<i>Pessimistic</i>							121.0	121.0	121.0	121.0	121.0
<i>Optimistic</i>							121.0	121.0	121.0	121.0	121.0

Source: Ministry of Finance and Economy

4. FISCAL FRAMEWORK

4.1. Policy strategy and medium-term objectives

In recent years, until the onset of the pandemic, public finances had embarked on a safe and optimal fiscal consolidation trajectory, materialized in the most crucial parameters of sustainability. First, this was materialized in the reduction of the overall budget deficit from 5% of GDP in 2013 to below the 2% level by 2019. While in 2020, as the main counter-response to the amortization to some extent of the pandemic shock, a highly expansionary fiscal policy was undertaken. Consequently, the total budget deficit reached about 6.8% of GDP and public debt increased to about 76% of GDP, i.e. by about 10 percentage points compared to the end of 2019.

In order to carry out such an expansionary fiscal policy in response to the shock, the government had to activate during 2020 the "deviation clauses" from the fiscal rules, as clauses already provided in the Organic Budget Law (LOB), thus not affecting the credibility of public finances in the perception of markets and economic agents. In addition, aiming to maintain as much as possible intact the credibility of public finances in the perception of markets (which is a key macroeconomic fundament especially for small countries with relatively high gross financing needs such as Albania) in July 2020 was taken another legal initiative by introducing a new fiscal rule in the LOB. This newly introduced fiscal rule legally sanctioned the return of the primary budget balance to at least a balanced level (so no less than zero), starting from 2024 onwards⁹.

This rule was welcomed quite positively by all international institutions (including definitely rating agencies) and consequently by economic actors as a whole, as a very appropriate and effective initiative to maintain the credibility and stability of public finances, not only in medium- and long-term post-pandemic, but it proved quite helpful also in the short-term in that of ensuring a relatively smooth financing (borrowing) during the shock, i.e. during 2020 and the first half of 2021, despite the significantly higher magnitude of borrowing during that period than typically.

From 2022 onwards, fiscal policy in the medium term will be oriented towards fiscal consolidation, in line with the fiscal rules set out in the Organic Budget Law (see box below on fiscal principles and rules). The fiscal consolidation and reduction of public debt are essential to lower debt-related vulnerabilities that hamper growth and cause macroeconomic instability.

Fiscal policy will target a downward, gradual but annually steady, trajectory of public debt, while the primary balance will return to a positive level from 2024 onwards, in accordance with the respective fiscal rules in the OBL. At the same time, in addition to fiscal consolidation, we will aim to maintain a healthy ratio of current and capital budget expenditures, where capital expenditures (i.e. public investments) will be targeted at an average of around 5.6 percent of GDP in each budget year 2022-2024 (including earthquake reconstruction investments), essential to support economic growth in the medium and long term.

The budget deficit for 2022 is planned to be at the level of 5.4 percent of GDP from about 5.8 percent expected for 2021. The primary balance for 2022 is expected to be still negative at about -2.7 percent, however with an improvement compared to about -3.8 percent expected for 2021. The current fiscal balance (the difference between public investment and fiscal deficit) will be positive in year 2022, at the level of 1 percent of GDP from an expected positive level of 2.3 percent this year, in accordance with the respective fiscal rule (the "golden rule" of the budget).

For the medium term period 2022-2024, the budget deficit is target at an average of around 3.7 percent per year. More specifically the overall fiscal balance is targeted at -5.4, -2.9 and -2.8 percent respectively for 2022, 2023 and 2024.

The primary balance is target at an average of around -0.8 percent per year over the following medium term period 2022-2024. In 2022, the primary balance is project on a primary deficit of 2.7 percent of GDP and in 2023 is targeted to be at balance, turning to positive from 2024 (surplus of 0.3 percent) and onwards.. The capital expenditures are targeted at 6.4, 5.2 and 5.3 percent respectively for 2022, 2023 and 2024. The current fiscal balance is targeted at an average of around +1.9 percent per year over the following medium term period 2022-2024. More specifically the current fiscal surplus is targeted at 1.0, 2.2 and 2.4 percent respectively for 2022, 2023 and 2024.

As a result, starting since 2022 the public debt as a ratio of GDP is expected to return to a downward trajectory, in line with the respective fiscal rule, where it is expected to fall at about 78.8 percent of GDP from about 80.1 percent expected for 2021. By the end of 2023, the public debt is expected to fall at about 77.6 percent of GDP

⁹ The original rule sanctioned "starting from 2023", but then this was changed again in July 2021 and became "starting from 2024"

and about 75.7 percent in 2024. Under the baseline scenario, public debt is expected to fall at around 74.6 percent in 2025 and further at around 67.6 percent by 2028.

FISCAL PRINCIPLES AND RULES

In full compliance with the obligations deriving from the Organic Budget Law (OBL) No. 9936/2008, amended, the fiscal framework for the period 2022-2024 materializes the following fiscal principles and rules:

1. *In each annual budget law, original or revised, and in the medium-term budget planning, the ratio of public debt to GDP shall be planned lower than the estimated level of the previous year, until the debt level reaches and stays under the threshold of 45% of GDP.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2022-2024 targets an annual level of total public debt in percentage of GDP lower than the level of the previous year.

2. *Nominal value of GDP in ALL which is used to calculate the ratio of public debt to GDP for projected years and for previous year, cannot be higher than the one forecasted or estimated in the IMF's World Economic Outlook report, the latest published in the time when annual budget proposal is submitted for approval to the Assembly. This fact is clearly documented in the explanatory note of the annual budget proposal.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2022-2024 is based on the following nominal GDP projections, which are presented comparatively against the latest IMF projections. In this case, according to the most recent WEO note published in October 2021, which states that "For Albania, projections were prepared prior to the start of the Article IV mission that ended on October 21, 2021 and therefore do not reflect updates made during the mission", the nominal GDP of the latest IMF mission (Article IV mission, conducted in October 2021) are taken in consideration, as in the following table.

Forecasted nominal GDP of the MFE and IMF				(in billion ALL)		
	2019	2020	2021 Fore.	2022 Fore.	2023 Fore.	2024 Fore.
MFE	1,691.7	1,617.5	1,769.3	1,867.4	1,964.8	2,070.9
IMF - World Economic Outlook	1,691.7	1,617.5	1,769.3	1,867.5	1,964.9	2,071.0
Difference MFE - IMF	0.0	0.0	0.0	-0.2	-0.2	-0.1
(The difference of the forecasted values should not be higher than zero)						

3. *The budget for each year includes a specific contingency of no less than 0.7% of total budget expenditure, to compensate potential risks from fluctuation of 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 2022-2024 includes for each year, in a separate item labelled "Contingency on interest rate fluctuations, etc.", a contingency of at least 0.7 percent of total expenditures.

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

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2022-2024 does not include revenues from potential privatizations.

5. *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" - the OBL, the annual deficit targets in the fiscal framework for the period 2022-2024, are lower than the planned capital expenditure. Consequently, the targeted current balance is positive at an average of 1.9 percent of GDP in each programmed year.

6. *In each annual budget law starting from the year 2024 and onwards, the actual primary balance cannot be negative, it must be at least balanced or positive (primary surplus).*

In accordance with this provision, the fiscal framework targets a positive primary balance of 0.3 percent in 2024 (and positive onwards).

1. Link to access the WEO report - <https://www.imf.org/en/Publications/WEO/Issues/2021/10/12/world-economic-outlook-october-2021>

4.2. Budget implementation in 2021

Total revenues collected for the period January-November 2021 were about ALL 458 billion, marking an increase of 19.4% or ALL 67.4 billion more than a year ago. Revenues from grants amounted to ALL 9 billion or 44% of the annual plan and ALL 3.6 billion more than the same period of the previous year. Revenues collected by the General Directorate of Customs (GDC) and the General Directorate of Taxes (GDT), including social contributions collected by the GDT for the period January-November 2021, were ALL 400.4 billion, with a realization of 105.6% of the plan, and 17.9% or ALL 60.8 billion more than the same period last year. Compared to last year, revenues increased, as a result of the positive performance in the collection of customs and tax duties by the relevant administrations, thus reflecting the recovery of our country's economy after the crisis and the consequences caused by the earthquake and the earthquake of the year. 2019 and the Covid-19 pandemic, accompanied by economic growth.

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

Type of tax	Fact 11M 2021	Plan 11M 2021	Difference Fact / Plan 2021	
			value	%
Total net VAT	144,274	136,861	7,413	5.4%
Profit tax	30,670	29,790	880	3.0%
Excise	46,608	44,790	1,818	4.1%
Personal income tax	36,074	37,386	-1,312	-3.5%
Total National Taxes	38,483	34,578	3,905	11.3%
Customs Tax	6,700	5,877	823	14.0%
TOTAL TAXES + CUSTOMS	302,809	289,282	13,527	4.7%
Contributions collected	97,542	89,705	7,837	8.7%
TOTAL GDC + GDT (Contributions)	400,351	378,987	21,364	5.6%

Source: Ministry of Finance and Economy (2021)

The main factors that have influenced the 11-month performance against the plan are:

- Rapid vaccination of the population, gradual opening of the economy and the summer season, revival of tourism and all other sectors of the economy directly or indirectly related to tourism, had a positive impact on economic growth and revenues that the economy has created for the state budget.
- The positive performance of the construction sector, including reconstruction due to the consequences of the earthquake, has increased turnover, imports, domestic production and budget revenues.
- The increase in customs revenues as a result of the increase in the volume of imports and the increase in prices in international markets.

Revenues from the General Directorate of Customs reached ALL 172.3 billion, with a realization of 112.3% of the plan. Compared to the same period of 2020, 25.6% were collected, or ALL 35.1 billion more.

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

Type of tax	Fact 11M 2021	Plan 11M 2021	Difference Fact / Plan 2021	
			value	%
VAT on imports	116,811	100,612	16,199	16.1%
Excise	46,608	44,790	1,818	4.1%
Mineral Rent	2,208	2,211	-3	-0.1%
Customs tax	6,700	5,877	823	14.0%
TOTAL DPD	172,327	153,490	18,837	12.3%

Source: Ministry of Finance and Economy (2021)

Revenues from value added tax on imports are ALL 116.8 billion with a realization of 116.1% of the plan with an increase of ALL 26.9 billion or 29.9% compared to the same period last year. The performance of VAT on imports is influenced by several factors such as:

- Increase in the volume of imports, which has led to an increase in revenues by ALL 135.6 billion or 31.7% more compared to the 11-month period of 2020.
- Increase in fuel prices in international markets compared to 2020, which occupy a significant share of about

15% in the structure of VAT on imports, giving a positive effect of ALL 1.8 billion.

Excise revenues are ALL 46.6 billion, with a realization of 104.1% of the plan or 16.5% more than the same period of 2020. The performance of excise for the period January - November is influenced by several factors:

- Increase in the amount of imported fuels by 17.1% compared to a year ago, bringing a positive effect on excise by +3.4 billion.
- Increase in cigarette imports, by 8.9% compared to a year ago, bringing a positive effect on excise by +2.4 billion.

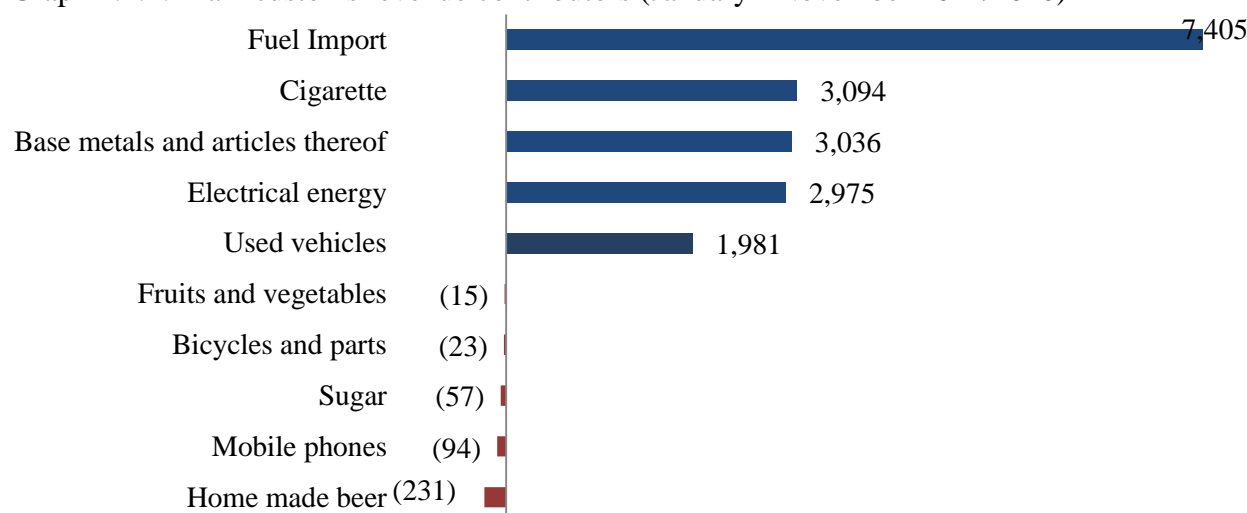
Reimbursed excise is ALL 271 million or 49% of reimbursed excise in the same period of 2020.

The performance of revenues from Mineral Rent during the period January - November 2021 was 2.2 billion ALL with a realization of 99.9% of the plan, marking an increase of 32.3% or 539 million ALL more than the same period last year. The performance of Mining Tariffs is influenced by several factors such as:

- Increase in the price of crude oil in international markets, with an effect of ALL 507.8 million, but also accompanied by an increase in the amount of crude oil exported by 2.8% more than last year with an effect of ALL +35.2 million.
- Increase in the amount of minerals exported was accompanied by a slight increase in the price of minerals in international markets, with an effect of ALL 21.7 million.

Revenues from customs duties were ALL 6.7 billion, with a realization of 114% of the plan and 19.5% or ALL 1.1 billion more than the same period of the previous year.

Graph 4.2.1: Main customs revenue contributors (January - November 2021/2020)



Source: Ministry of Finance and Economy (2021)

Revenues collected by the General Directorate of Taxes (including social and health insurance contributions collected by the GDT) for the period January-November 2021 are 228 billion ALL, with a realization of 101.1% of the plan and 12.7% or 25.7 billion ALL more than the same period a year ago. The following table shows detailed data on tax performance:

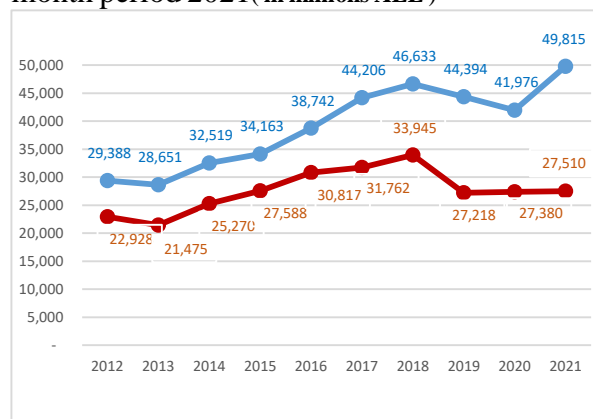
Table 4.2.3: Revenues collected by GDT (in mln ALL)

Type of tax	Fact 11M 2021	Plan 11M 2021	Difference Fact / Plan 2021	
			value	%
NET VAT	27,463	36,250	-8,787	-24.2%
VAT collected	49,768	52,150	-2,382	-4.6%
VAT refund	22,305	15,900	6,405	40.3%
Profit tax	30,670	29,790	880	3.0%
Personal income tax	36,074	37,386	-1,312	-3.5%
National Taxes	36,275	32,366	3,909	12.1%
Total	130,482	135,792	-5,310	-3.9%
contributions	97,542	89,705	7,837	8.7%
TOTAL GDC + Contributions	228,024	225,497	2,527	1.1%

Source: Ministry of Finance and Economy (2021)

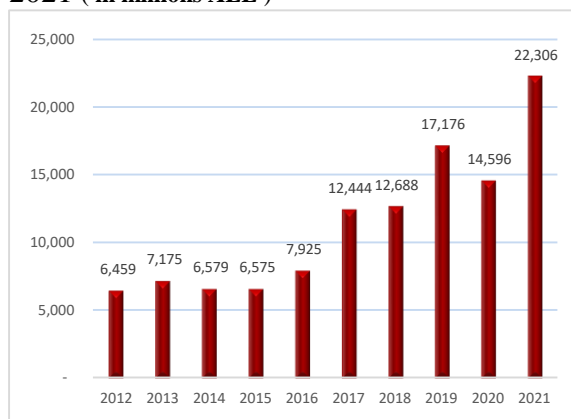
Net VAT revenues are ALL 27.5 billion, with a realization of 75.8% against the plan and ALL 83 million or 0.3% less than in the 11 months of 2020. In the period January-November 2021, the amount of refunded VAT is ALL 22.3 billion, about 52.8% or ALL 7.7 billion more than the same period of 2020. The performance of VAT revenues has been significantly affected by the increase of refunds, which for the 11-month period 2021 reached ALL 22.3 billion, ALL 6.4 billion or 40.3% more than the VAT refund plan for 11 months 2021. The sectors with the largest contribution to VAT revenues, compared to 11 months 2020 are trade, construction and services sectors.

Graph 4.2.2: VAT performance during the 11-month period 2021 (in millions ALL)



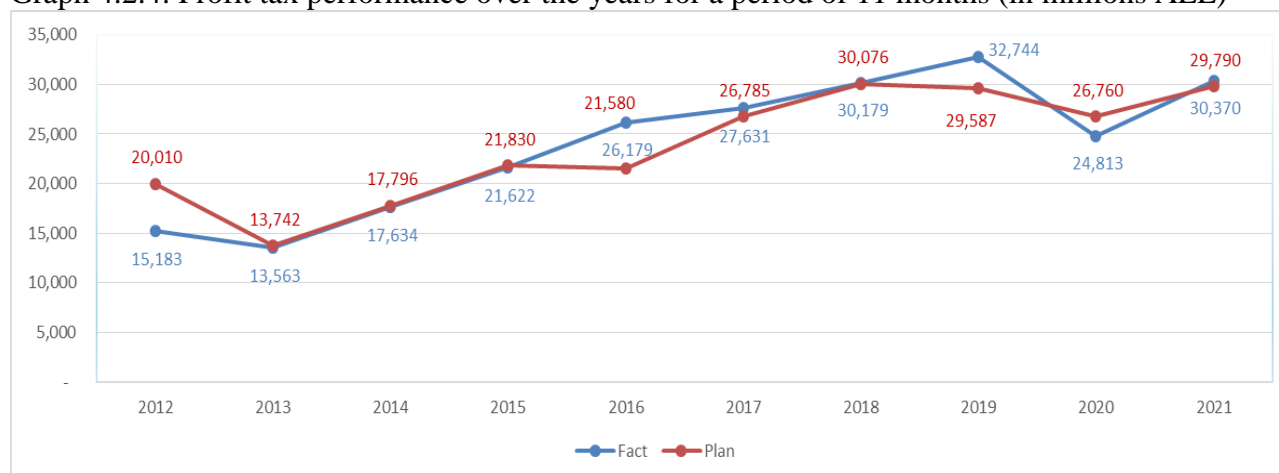
Source: Ministry of Finance and Economy (2021)

Graph 4.2.3: VAT refunds during 11 months 2021 (in millions ALL)



Profit tax revenues were realized in the amount of ALL 30.7 billion with a realization of 103% of the plan, marking an increase of 23.6% or ALL 5.9 billion more than the same period of the previous year. From the analysis of profit tax by sectors results the services sector with an increase of 24% compared to the 11-month 2020, the construction sector with an increase of 47% compared to the same period a year ago and the trade sector with an increase of 23% compared to last year.

Graph 4.2.4: Profit tax performance over the years for a period of 11 months (in millions ALL)

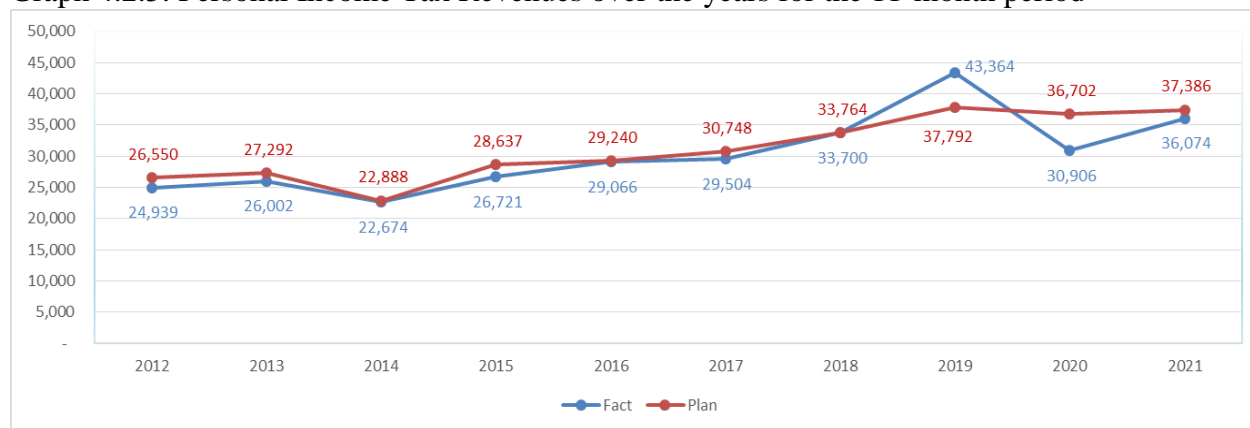


Source: Ministry of Finance and Economy (2021)

Revenues from Personal Income Tax are realized with ALL 36.1 billion, with a realization of 96.5% of the plan with an increase of 7.1% or ALL 2.4 billion compared to 2020. Significant impact on personal income tax revenues had:

- Revenues from individual annual income tax with an increase of 93% compared to 11-month 2020.
- Dividend tax income and shares with an increase of 51% compared to the 11-month 2020.

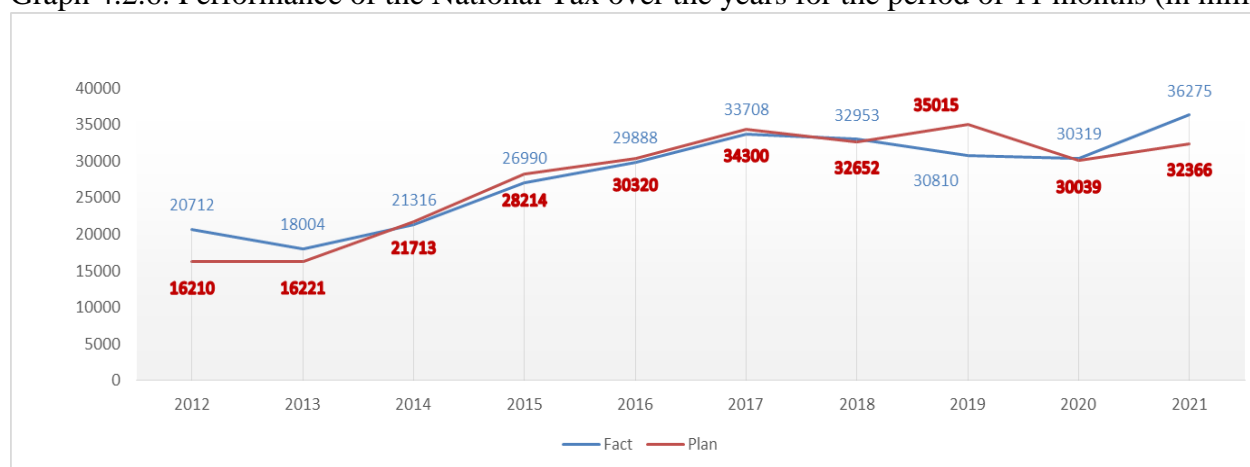
Graph 4.2.5: Personal Income Tax Revenues over the years for the 11-month period



Source: Ministry of Finance and Economy (2021)

Revenues from the National Tax for 2021 were 33.1 billion ALL, with a realization of 112.1% of the plan.

Graph 4.2.6: Performance of the National Tax over the years for the period of 11 months (in millions ALL)



Source: Ministry of Finance and Economy (2021)

Revenues from contributions collected by the GDT amounted to ALL 97.5 billion, 8.7%, or ALL 7.8 billion more than planned and an increase of only 13.3% or ALL 11.4 billion compared to the same period in 2020.

Expenditures for the period January-November 2021

General Public Expenditures, for the eleven-month period of 2021, reached the level of about ALL 491.4 billion, with a realization of 89.7 percent of the period's plan. Compared to the same period of 2020, this item resulted 7.8 percent higher or about ALL 35.7 billion more. In annual terms, total expenditures for the 11-month period of 2021, were realized at 82.9 percent of the annual plan according to the Initial Budget and 80.5 percent according to Normative Act no.26, dated 22.06.2021 (NA no. 26).

Table 4.2.4: Consolidated fiscal indicators during the 11-month of 2021 (in million ALL)

Items	Nov-21				Year 2021			
	Plan	Actual	Actual-Plan	in % over Plan	Annual Plan Initial Budget (IB)	Annual Plan Normative Act no.26	% of annual realization IB	% of annual realization NA no.26
Total Revenues	442,731	458,383	15,652	103.5%	484,106	489,526	94.7%	93.6%
Total Expenditures	547,486	491,366	-56,120	89.7%	592,801	610,069	82.9%	80.5%
Current Expenditures	423,189	404,502	-18,687	95.6%	467,769	468,771	86.5%	86.3%
Capital Expenditures	91,160	63,042	-28,118	69.2%	93,032	104,298	67.8%	60.4%
Deficit/Surplus	-104,755	-32,983	71,772	31.5%	-108,695	-120,543	30.3%	27.4%

Source: Ministry of Finance and Economy (2021)

Table 4.2.5: Consolidated fiscal indicators during the 11-month of 2020 and 2021 (in million ALL)

Items	Actual November 2020	November 2021		Difference Actual 2021 Plan 2021	in % over Plan 2021	Difference Actual 2021 Actual 2020	in % over Actual 2020
		Plan	Actual				
Total Revenues	382,842	442,731	458,383	15,652	103.5%	75,541	19.7%
Total Expenditures	455,687	547,486	491,366	-56,120	89.7%	35,679	7.8%
Current Expenditures	378,922	423,189	404,502	-18,687	95.6%	25,580	6.8%
Capital Expenditures	63,908	91,160	63,042	-28,118	69.2%	-866	-1.4%
Deficit/Surplus	-72,845	-104,755	-32,983	71,772	31.5%	39,862	-54.7%

Source: Ministry of Finance and Economy (2021)

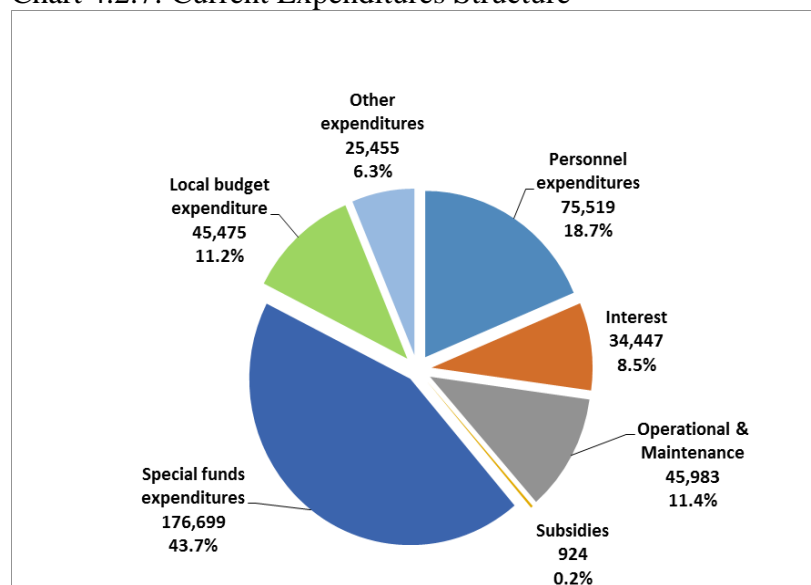
Current expenditures, for the 11-month period of 2021, reached the level of about ALL 404.5 billion or 95.6 percent of the period's plan. Compared to the same period of the previous year, this item resulted 6.8 percent higher or about ALL 25.6 billion more. *In annual terms*, current expenditures for the 11-month period resulted 86.5 percent of the Initial Budget and 86.3 percent of the changed annual plan, (according to NA no. 26).

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

- Special funds expenditures: 100 percent of the period's plan, 90.5 percent of the Initial annual plan and 91.2 percent of the changed annual plan, according to NA no.26.
- Operational and maintenance expenditures: 97.1 percent of the period's plan, 92.2 percent of the Initial annual plan and 88.5 percent of the changed annual plan.
- Other social expenditures: 96.6 percent of the period's plan, 88.7 percent of the Initial and changed annual plan.

The detailed performance of the main items of current expenditures is presented as follows:

Chart 4.2.7: Current Expenditures Structure



Source: Ministry of Finance and Economy (2021)

Personnel expenditures, for the eleven-month period of 2021, represented 18.7 percent of the total current expenditures. Their actual level of about ALL 75.5 billion, realizes the forecasted level for this item in the 11-month period, at 91.4 percent. Compared to the same period of 2020, this item resulted 8.3 percent higher or about ALL 5.76 billion more. *In annual terms*, this item resulted 82.2 percent of the annual plan according to Initial Budget and 82.9 percent of the changed annual plan.

- Wages expenditures at the end of November 2021, were realized at about ALL 64.5 billion or 99.5 percent of the period's plan. Compared to the same period of 2020, this item results 8.1 percent higher or about ALL 4.8 million more. *In annual terms*, wages expenditures resulted 90.8 percent of the initial annual plan and 91.1 percent of the changed annual plan.
- Expenditures for social security resulted at about ALL 10.4 billion or 98.2 percent of the period's plan. Compared to the same period of 2020, this item results 8.4 percent higher or ALL 811 million more. *In annual terms*, expenditures for social security resulted 89.2 percent of the initial annual plan and 89.6

percent of the changed annual plan.

Interest expenditures, for the eleven-month period of 2021, represented 8.5 percent of the total current expenditures. Their actual level of about ALL 34.4 billion, realizes the forecasted level for this item in the 11-month period, at 93.9 percent. Compared to the same period of 2020, this item resulted 5.6 percent higher or about ALL 1.8 billion more. In annual terms, this item results 78.6 percent of the Initial and changed annual plan.

Operational and Maintenance expenditures, during the eleven-month period of 2021, resulted about ALL 46 billion, or 97.1 percent of the period's plan. In annual terms, this item results 92.2 percent of the Initial annual plan and 88.5 percent of the changed annual plan. Compared to the same period of 2020, this item resulted 12.5 percent higher or about ALL 5.1 billion more.

Subsidies expenditures, for the 11-month period of 2021 resulted ALL 924 million or 70.3 percent of the period's plan. In annual terms, this item results 59.6 percent of the Initial and changed annual plan. Compared to the same period of 2020, this item resulted 3.7 percent lower or ALL 35 million less.

Expenditures for Special Funds for the eleven-month period of 2021 resulted about ALL 176.7 billion, with a realization of 100 percent of the period's plan or 90.5 percent of the annual plan according to the Initial Budget and 91.2 percent of the changed annual plan. Respectively:

- Social insurance expenditures resulted about ALL 131.1 billion, with a realization of 101.3 percent of the period's plan and 92.2 percent of the Initial and changed annual plan.
- Health insurance expenditures resulted about ALL 43.9 billion, with a realization of 103.8 percent of the period's plan, 92.4 percent of the Initial annual plan and 95.1 percent of the changed annual plan.
- Expenditures for owners' compensation resulted at about ALL 1.67 billion, with a realization of 61 percent of the period's plan and 55.5 percent of the Initial and changed annual plan.
- Compared to the same period of 2020, social insurance expenditures resulted ALL 12.9 billion more, health insurance expenditures about ALL 5.9 billion more and expenditures for owner's compensation at ALL 34 million less.

Other social expenditures for the eleven-month period of 2021 resulted about ALL 25.45 billion, with a realization of 96.6 percent of the period's plan or 88.7 percent of the Initial and changed annual plan. Respectively:

- Unemployment Expenditures resulted about ALL 895 million or 116.9 percent of the period's plan. In annual terms, unemployment expenditures for the eleven-month period of 2021 resulted 111.9 percent of the Initial and changed annual plan. Compared to the same period of 2020, this item resulted 11.6 percent higher or about ALL 93 million more.
- Expenditures for Social Assistance and Disability Payment resulted about ALL 20.9 billion or 92.5 percent of the period's plan. In annual terms, this item results 84.5 percent of the Initial and changed annual plan. Compared to the same period of 2020, this item resulted almost in the same level.
- Expenditures for compensation for ex-political prisoners resulted about ALL 690 million or 78.2 percent of the period's plan. In annual terms, this item resulted 69 percent of the Initial and changed annual plan. Compared to the same period of 2020, this item resulted 26.5 percent lower or ALL 248 million less.
- Expenditures for the birth bonus resulted at ALL 3 billion or 139.5 percent of the period's plan. In annual terms, this item results 136.4 percent of the Initial and changed annual plan. Compared to the same period of 2020, this item resulted 19 percent higher or ALL 480 million more.

Expenditures for Local Government during the eleven-month period of 2021, represented 11.2 percent of the total current expenditures. Their actual level of about ALL 45.5 billion, realizes the forecasted level for this item in the eleven-month period at 86.8 percent or 80 percent of the annual plan according to the Initial Budget and 78.6 percent of the changed annual plan. Compared to the same period of 2020, this item resulted 12 percent lower or about ALL 6.19 billion less, but in 2020 Expenditures for Local Government during the eleven-month period included expenditures for Reconstruction fund, which during the eleven-month period of 2021 results to be ALL 14 billion.

Capital expenditures, for the eleven-month period of 2021, reached the level of about ALL 63.04 billion or 69.2 percent of the period's plan. Compared to the same period of 2020, this item results 1.4 percent lower or about ALL 866 million less. Respectively:

- Domestic financing for the 11-month period of 2021 reached the level of about ALL 40.5 billion or 67 percent of the period's plan. Compared to the same period of 2020, this item resulted 3.8 percent lower or about ALL 1.6 billion less.
- Investments from Higher Education revenues reached the level of ALL 629 million, resulting 74.2 percent

of period's plan. Compared to the same period of 2020, this item resulted 30.1 percent lower or ALL 271 million less.

- Foreign financing reached the level of about ALL 21.9 billion, resulting 73.4 percent of the period's plan. Compared to the same period of 2020, this item resulted 4.8 percent higher or about ALL 1 billion more.

In annual terms, capital expenditures for the eleven-month period resulted 67.8 percent of the Initial Budget and 60.4 percent of the changed annual plan. Respectively:

- Domestic financing resulted 70.3 percent of the annual plan according to the Initial Budget and 58.8 percent according to NA no. 26,
- Investments from Higher Education revenues resulted 62.9 percent of the Initial and changed annual plan.
- Foreign financing resulted 63.6 percent of the Initial and changed annual plan.

Reconstruction fund for the 11-month period of 2021 resulted about ALL 23.16 billion or 91.5 percent of the period's plan. This realization consists of about ALL 14.02 billion expenditures from the Local Government and about ALL 9.14 billion expenditures from the Central Government.

Reconstruction fund expenditures, for the eleven-month period of 2021, resulted 82.7 percent of the Initial and changed annual plan.

The deficit level for the eleven-month period of 2021 resulted about ALL 33 billion or 31.5 percent of the period's plan of about ALL 104.76 billion. *In annual terms* the deficit level resulted 30.3 percent of the Initial annual plan and 27.4 percent of the changed annual plan. Compared to the same period of 2020, this item resulted about ALL 39.9 billion less.

Table 4.2.6: Main items of general public expenditures during the 11-month of 2021 (in million ALL)

		Actual November 2021	Annual Plan - Initial Budget 2021	Changed Annual Plan - Normative Act no.26	% of realization (Actual November/Annual Plan Initial Budget)	% of realization (Actual November/ Changed annual Plan)
1	Total Expenditures	491,366	592,801	610,069	82.9%	80.5%
1.1	Current Expenditures	404,502	467,769	468,771	86.5%	86.3%
	Personnel	75,519	91,834	91,139	82.2%	82.9%
	Interest	34,447	43,800	43,800	78.6%	78.6%
	Operational & Maintenance	45,983	49,888	51,941	92.2%	88.5%
	Subsidies	924	1,550	1,550	59.6%	59.6%
	Special funds	176,699	195,171	193,801	90.5%	91.2%
	Local budget	45,475	56,826	57,840	80.0%	78.6%
	Other social expenditures	25,455	28,700	28,700	88.7%	88.7%
1.2	Capital Transfers	200				
1.3	Reserve fund/contingency	461	4,000	9,000	11.5%	5.1%
1.4	Capital Expenditures	63,042	93,032	104,298	67.8%	60.4%
	Domestic financing	40,511	57,604	68,870	70.3%	58.8%
	Foreign financing	21,902	34,428	34,428	63.6%	63.6%
	Investments from Higher Education Revenues	629	1,000	1,000	62.9%	62.9%
1.5	Reconstruction fund	23,161	28,000	28,000	82.7%	82.7%

Source: Ministry of Finance and Economy (2021)

COVID19 Measures - Budget Financing for 2021 by Reserve Fund

According to Law no.137 / 2020 "On the budget of 2021, amended", in the budget of MHSP are planned funds with destination expenditures for Covid19, in a value of about ALL 6 billion.

Also, as a new measure related to the pandemic, through CoMD no. 85 dated 10.02.2021 "For an addition to the DCM no. 597 dated 04.09.2019" On determining the procedures, documentation and monthly amount of economic assistance and the use of additional funds over the conditional fund for economic assistance ", it was approved to double the amount of economic assistance for the first half of 2021.

Meanwhile, the four Normative Acts of the 2021 budget, approved so far, have increased the Reserve Fund 2021 in order to purchase the necessary vaccines. Thus, the Reserve Fund provided in the Initial Law of ALL 2 billion planned for the financing of unforeseen cases, with the approval of four normative acts was changed to the amount of ALL 8 billion.

The reserve fund of the State Budget in implementation of the CoMDs approved as of today is ALL 4.1 billion for additional measures in the fight against Covid-19 and further more for the purchase of vaccines necessary

for the vaccination of the population. The amount of funds approved for the purchase of vaccines is ALL 3.5 billion, from which ALL 3.4 billion have been used or 98 % of total fund.

Furthermore, approximately ALL 0.6 billion have been approved to finance other Covid-19 measures, from which ALL 0.5 billion have been used or 87% of total funds.

Moreover, the expected cost of vaccinating the population, according to official estimates of the MoH is ALL 0.6 billion.

Below you will find the table "COVID19 Measures - Budget Financing for 2021 by the Reserve Fund", which represent the funds planned and realized by the State Budget Reserve Fund in the framework of anti-covid-19 measures, FY 2021, up to date of 06.12.2021.

Table 4.6.7: Covid19 measures - Budget financing for 2021 by Reserve Fund

TABLE " COVID19 Measures - Budget Financing for 2021 by Reserve Fund"							
Nr.	Beneficiary	CoMD / Normative Act	Caption	(in 000 ALL)			
				Used for vaccines		Other COVID19 Measures	
				Plan	Actual	Plan	Actual
1	Ministry of Health and Social Protection	NA no.3, dt 10.01.2021 amended & CoMD no.32 dt 20.01.2021 & CoMD no. 490, dt 30.07.2021 & CoMD no. 545, dt. 29.09.2021	For the use of the reserve fund for the purpose of prepayment of vaccine doses and the respective payments deriving from the agreement signed for "Production and supply between Pfizer export b.v. and the Ministry of Health and Social Protection, the Minister of State for Reconstruction and the Institute of Public Health ", approved by law no. 3, dated 18.01.2021	1,357,770	3,418,712		
2	Ministry of Health and Social Protection	NA no.8 dt 22.03.2021 & NA no.9 dt. 22.03.2021 & CoMD no.174 dt 24.03.2021	"For the payment of vaccine doses, it follows from the agreement between the Ministry of Health and Social Protection, the Minister of State for Reconstruction and the Institute of Public Health, and the authorized distributor" Keymen Ilaç Sanayi Ve Ticaret "a.ş., for the supply of the Republic of Albania with the inactivated vaccine against covid-19 (vero cell) coronavac , created by sinovac life science co ltd.and produced in the People's Republic of China "	1,046,000			
3	Ministry of Health and Social Protection	NA no.16 dt 07.04.2022 & CoMD no. 328, dt. 02.06.2021	On the approval of the text of the agreement between "Human Vaccine" LLC and the Ministry of Health and Social Protection of Albania, the Minister of State for Reconstruction of Albania and the Institute of Public Health, for the supply of the Republic of Albania with the vaccine against COVID-19 " Sputnik V ", developed by the Gamaleya National Research Institute for Epidemiology and Microbiology in Russia	55,505			
4	Ministry of Health and Social Protection	NA no. 21 dt 19.05.2021 & CoMD no. 357, dt. 16.06.2021	For the approval of the text of the supply agreement between the Ministry of Health and Social Protection, the Minister of State for Reconstruction and the Institute of Public Health and the Authorized Distributor " Keymen Ilaç Sanayi Ve Ticaret A.S "	1,013,500			
5	Ministry of Finance and Economy	CoMD no.909 dt 18.11.2020 (also provided for 2021)	"On determining the procedures, documentation and the amount of benefit of financial assistance for employees and former employees of the oil refinery, Ballsh" *specification for 2021			461,306	461,290
6	Ministry of Health and Social Protection	CoMD no 156, date 10.02.2021	"For an additional fund in the Budget of 2021, approved for MHSP, for the Municipality of Fier"			35,000	35,000
7	Ministry of Tourism and Environment	CoMD no. 278, date 12.05.2021	For an additional fund in the budget of 2021, approved for the Ministry of Tourism and Environment, to support the promotion of Albanian Tourism in international markets as a need for the post-COVID-19 situation ",			100,000	24,120
TOTAL				3,472,774	3,418,712	596,306	520,410

Source: Ministry of Finance and Economy, 2021

Local Government Revenues

For the 11th month period of 2021, local self-government units at the national level have collected revenues in the amount of about ALL 24.97 billion, a figure that is about ALL 5.1 billion more than the value of revenues collected during the same period of 2020. Seen in this perspective, the increase in the efficiency of tax collection by the local government for 2021 has come as a result of the economic recovery after a difficult economic situation caused by the global pandemic COVID-19 during 2020. In this regard, local revenues have increased by about 26% in the first 11 months of 2021 compared to the same period a year earlier. Even compared to the same period of 2019 (before the covid-19 pandemic), the collection of local revenues in 2021 marks an increase of 3.1 billion ALL (from 21.8 billion ALL to 24.97 billion ALL) or 14.4%. According to their source, local taxes and property taxes are on the rise.

Local Government Expenditures

Referring to the fiscal indicators of the consolidated budget, the level of expenditures for the 11th month period of 2021 of about 45.5 billion ALL, compared to same period of 2020 of about 51.6 billion ALL is reduced,

but here we underline the fact that for this period in 2020 in the local budget expenditures is included also the Reconstruction Fund. For the 11 months of 2021, the Reconstruction Fund allocated to local budgets turns out to have been realized in the amount of about 14 billion ALL (not included in the following table of analysis of local expenditures). But if we compare the 11 months of 2021 with the 11 months of 2020 including the Reconstruction Fund in 2021, it results that local government expenditures have increased by about 15.2%.

Table 4.2.7: Actual revenues and expenditures of local government by nature (in million ALL)

No.	TITLE	Factual 11th month period		Difference	
		2021	2020	2021/ 2020	2021 versus 2020 in %
I.	Revenues from local government	24,970	19,843	5,127	126%
I.1	<i>Property tax</i>	5,666	4,688	978	121%
I.2	<i>Small business tax</i>	374	373	2	100%
I.3	<i>Local Tax</i>	18,930	14,782	4,148	128%
II.	Local Government Expenditures	45,472	51,663	-6,191	88%
II.1	<i>Current Expenditures</i>	36,445	41,119	-4,674	89%
	<i>Personnel Expenditures</i>	21,905	20,495	1,411	107%
	<i>Operational & Maintenance Expenditures</i>	13,287	12,741	546.5	104%
	<i>Interest</i>	16	21	-5	76%
	<i>Subsidies</i>	125	124	1	101%
	<i>Other exp.</i>	1,112	7,739	-6,627	14%
II.2	<i>Capital Expenditures</i>	9,027	10,544	-1,517	86%

Source: Ministry of Finance and Economy (2021)

4.3. Budget plans for the ERP submission year

Total Revenues for 2022 is planned at the amount of ALL 536.8 billion or 28.7% of GDP. The programming revenues supports the goals of the Ministry of Finance and Economy for fiscal recovery, as well as keeping the budget deficit and public debt under control. This program is based on improving fiscal administration and minimizing informality in the economy, thus supporting economic recovery, as well as increasing production and exports.

Grants is planned at the amount of ALL 14 billion or 0.7% of GDP; *Tax revenues* is planned at the amount of ALL 500.2 billion or 26.8% of GDP and *Non tax revenues* is planned at the amount of ALL 22.7 billion or 1.2% of GDP.

Total public expenditure for 2022 is planned at the amount of 637.7 billion ALL or 34.1% of GDP.

Personnel expenditures for 2022 reflect the current cost of Public Administration, as well as the new policy of increasing the salaries, mainly for the health, education and defence sectors. The annual fund for the increase of salaries is planned in the amount of 2.4 billion ALL and provides a 6% salary increase per function for health and education workers. Total expenditures for salaries in the Public Administration are planned in the amount of 91.6 billion ALL or 4.9% of GDP.

Interest expenses are projected at 50.8 billion ALL or 2.7% of GDP, to cover any possible risk of rising interest rates.

Operating and maintenance expenditures for central government for 2022 (excluding expenditures incurred by public institutions, which have as a source of funding overseas revenues), are projected at the level of 63.2 billion ALL or about 3.4% of GDP. In this item is programmed the priority support of the existing central government policies such as: purchase of anti-COVID vaccines, farmers scheme, maintenance of national roads, employment promotion programs, schemes to support economic development and support for youth and children.

Local budget expenditures for 2022 are projected at 60.3 billion ALL, with an increase of 3.3% more than the Normative Act of 2021. These expenditures for 2022, occupy 3.2% of GDP, from 2.3% in 2013. COVID-19, as in other countries has had and is expected to have negative effects on the economic downturn and consequently on the reduction of budget revenues. Facing a major economic and budgetary challenge by local self-government units due to the consequences caused by the earthquake and pandemic COVID-19 are a positive indicator of the work done in recent years in terms of macroeconomic stability, predictability of funds

and transparency of disciplined use of budget funds. In order to maintain the stability of local expenditures and to support local self-government units to cover the costs of Covid-19, the level of unconditional transfer for 2022 will be about 273 million ALL higher than 2021. This transfer, compared to 2015 (the year before the administrative-territorial reform), is 6.3 billion ALL more or about 54.5 percent higher. In the unconditional transfer projected for 2022, 18.7 billion ALL, will be added 9.3 billion ALL, unconditional sectorial transfer for the new functions, transferred at the local level. As a result, in 2022, the grant from the state budget for local government will be in the amount of 28 billion ALL. Revenues from local taxes and fees in 2021 will be 27.6 billion ALL or 6 percent higher than expected in 2021 and almost twice higher than in 2013 and 2015.

Expenditures of special funds, which include the total expenditures for the Social Insurance Funds, Health and compensation in value of the former owners, are planned in the amount of 212.3 billion ALL. The level of expenditures for the *Social Insurance Scheme* for 2022 is projected 148.9 billion ALL or 8% of GDP. From this fund, for the indexation of pensions is projected 2.6 billion ALL and 3.5 billion ALL for the end-of-year bonus for pensioners. Meanwhile, the expenditures of the *Health Care Insurance Scheme* for 2022 are projected 52.8 billion ALL or 2.8% of GDP, from 46.1 billion ALL planned in 2021.

Finally, the expenditures for the *Compensation Fund in the value of Owners*, are projected in total in the amount of 4.5 billion ALL or 0.2% of GDP.

Other social expenses include funds for unemployment benefits, disability, economic assistance, compensation for former political persecutors, and childbirth bonuses.

- Expenditures for the unemployment payment are projected at the level of 900 million ALL.
- Expenditures for the economic assistance payment and disability are projected at the level of 23.5 billion ALL or 1.3% of GDP.
- A fund of 1 billion ALL or 0.1% of GDP is projected for the former persecuted.
- A fund of 2.2 billion ALL or 0.1% of GDP is projected for the birth bonuses.

Expenditures for subsidies are projected at the level of 1.55 billion ALL, increased compared to a year ago. These costs go to support the water supply and sanitation sector based on its performance, as well as to cover a part of the costs of railway activity and the activity of government services.

The level of the Reserve Fund for 2022 is planned in the amount of 2.9 billion ALL, respectively 2.4 billion ALL Reserve Fund of the Council of Ministers and 500 million ALL contingency for specific projects for children.

Public investments for 2022 are planned at 6.4% of GDP or 119.4 billion ALL (*including the reconstruction fund in the amount of 20 billion ALL as well as the capital transfer for the expropriation fund by 1.2 billion ALL*). In the investment planning for 2022, all contractual obligations for investment projects with foreign and domestic financing have been taken into consideration. Just like in 2021, even in 2022 the financing of ongoing projects will have priority.

The following criteria has been followed for the investment planning:

- Priorities of the Government Program for the period 2021 - 2025;
- European integration priorities;
- Ongoing projects;
- Local cost support and VAT for foreign funded projects.

4.4. Medium-term budgetary outlook

Tax and Customs Revenues forecast for 2022 has taken into account all the important factors affecting the budget, especially the economic situation created by the Covid-19 pandemic, including the effect of new fiscal policies aimed at economic recovery.

Revenue programming for 2022, supports the goals of the Ministry of Finance and Economy for fiscal recovery, as well as keeping the budget deficit and public debt under control. This program is based on improving fiscal administration and minimizing informality in the economy, thus supporting economic recovery, as well as increasing production and exports.

The revenue programming methodology is based on contemporary programming models, and on the detailed analysis of the factors that affect each tax. The model used is based on macroeconomic forecasts for 2022-2024 such as nominal growth, deflator, analysis of imports of major product groups, analysis of time series and models, based on the coefficient of elasticity "Buoyancy" and "Effective Tax Rate" for each tax.

Macroeconomic factors are harmonized in planning, with key indicators affecting specific taxes. In detail, the main indicators for estimating income are:

- Nominal GDP growth, analyzing this effect in an integrated manner with other factors for each tax in particular, in relation to historical data and price forecasts in international markets for taxes assessed as value added tax, mining royalties and customs duties.
- Expected exchange rate of two main currencies: USD and EURO with ALL;
- Exchange prices that affect VAT revenues and royalties;
- Expected quantities of import of goods.

Total revenues collected by GDC and GDT (including social security) are estimated to be ALL 471.5 billion, or ALL 39.5 billion (9.2%) more than the expected year 2021. GP and GDT revenues (excluding contributions) for 2022 are estimated to be ALL 360.5 billion, or ALL 32.5 billion (9.9%) more than the previous 2021, while revenues from social contributions are estimated to be ALL 111 billion or ALL 7 billion (6.7%) more than the expected year 2021.

Table 4.4.1: Total Revenue from the Tax and Customs Administration (in ALL million)

Type of tax	2019	2020	The expected 2021	Prediction 2022	Prediction 2023	Prediction 2024	Difference 2022-2021	
							Value	In %
Total Net VAT	132,412	130,354	151,460	166,061	179,332	193,710	14,601	9.6%
Profit tax	36,575	28,381	33,631	35,586	37,778	40,009	1,955	5.8%
Excise	46,742	44,521	51,830	56,478	58,011	59,346	4,648	9.0%
Personal income tax	46,124	33,658	42,679	45,161	48,063	50,906	2,482	5.8%
Total National Taxes	36,423	35,829	40,900	49,741	52,427	55,162	8,841	21.6%
Customs Tax	6,482	6,241	7,500	7,508	8,115	8,774	8	0.1%
Total DPD+DPT	304,758	278,984	328,000	360,535	383,726	407,907	32,535	9.9%
Contributions collected (DPT)	91,850	98,300	104,000	111,000	118,000	125,000	7,000	6.7%
Total DPD+DPT(Contributions)	396,608	377,284	432,000	471,535	501,726	532,907	39,535	9.2%

Source: Ministry of Finance and Economy (2021)

Customs revenues are projected based on the historical trend analysis of 60 major product groups over a multi-year period. This forecast is corrected by the effects of external factors on each tax. The same procedure is used for tax revenue, based on the statistical model of forecasting expected revenue as well as the exogenous factors that affect each tax.

External factors that have been taken into account in the impact of revenue growth for 2021 are:

Macroeconomic framework

Nominal Gross Domestic Product growth, discounted by the Coefficient of Elasticity, is applied by analyzing this effect in an integrated manner with other factors for each tax in particular, related to historical data and price projections in international markets to ad taxes -valorem as Value Added Tax, Mineral Rent and Customs Tax. The projection includes factors related to nominal GDP growth, average exchange rate EURO-ALL and USD-ALL, as well as Brent crude oil and other minerals prices.

Effects fiscal politics

For 2022, some fiscal changes are foreseen. The revenue forecast for 2022 supports the goals of the Ministry of Finance and Economy for fiscal recovery, as well as keeping the budget deficit and public debt under control. This program is based on improving fiscal administration and minimizing informality in the economy, thus supporting economic recovery, as well as increasing production and exports.

Priority will be given to the implementation and sustainability of fiscal policies by stimulating simplicity, transparency, reducing administration costs, and avoiding favorable exemptions or tariffs.

In this context, fiscal policies for 2022 have been drafted, which are presented through the fiscal package 2022 with the following effects on revenues:

- Elimination of the compensation scheme of the agricultural producer for VAT purposes (from 6% to 0%).

It is projected to affect the increase of revenues with an effect of 750 million ALL.

- Setting a reduced rate of 10% VAT on the supply of agricultural inputs. It is projected to affect the increase of revenues with an effect of 900 million ALL.
- Exemption of VAT on the import of machinery and equipment in order to implement investment contracts with value equal to or greater than 500 million ALL (from the current 50 million). It is projected to affect the increase of revenues with an effect of ALL 400 million.
- Unification of the applicable excise on liquefied gas for both private and commercial consumers in the amount of 6 ALL / litre. It is projected to affect revenue growth with an effect of ALL 375 million.
- Increase of excise according to a calendar (2022-2026) for tobacco products and its by-products. It is projected to affect the increase of revenues with an effect of 750 million ALL.
- Indexation of excise at the inflation rate for other excisable products. It is projected to affect the increase of revenues with an effect of ALL 500 million.
- Abolition of fuel excise refund for farmers and agro-industrial industry (except fisheries). It is projected to affect the increase of revenues with an effect of ALL 800 million.
- Increasing the non-taxable base for personal income tax effect 30,000 ALL to 40,000 ALL and 150,000 ALL to 200,000 ALL. It is projected to affect the reduction of revenues with an effect of -685 million ALL.
- Establishment of a national tax on fuel supplied in free zones (for re-export) 65 ALL/litre. It is projected to affect revenue growth with an effect of ALL 1.35 billion.
- National tax on powdered milk. It is projected to affect the increase of revenues with an effect of ALL 100 million.

Revenue forecast for each tax for 2021

VAT revenues are projected to reach ALL 166.1 billion, ALL 32.5 billion, or 9.9% more than in 2021. The main source of VAT revenue growth for 2022 is expected to be:

- VAT that will be generated as a result of economic growth;
- VAT from the increase of the volume of imports and the conjuncture of international prices;
- VAT from improved administration, fight against informality and control of the chain of transactions between operators.
- VAT from the effects of the fiscal package 2020 (+2 billion ALL);

Excise revenues are projected to increase by ALL 4.7 billion, or 9% more than a year ago, with a total value of ALL 56.5 billion. The main factors that are projected to influence the increase of excise revenues are as follows:

- Increasing the import of solid goods such as fuels and cigarettes.
- Strengthening the fight against informality, through rigorous control of excise entities.
- Further discipline of procedures for obtaining exemptions and refunds from this tax.

Excise tax from the effects of the fiscal package 2022 (+2.4 billion ALL);

Revenues from Profit Tax are projected to be realized in the amount of ALL 35.6 billion, ALL 2 billion or 5.8% more than a year ago. The projected increase in profit tax is based on:

- In the recovery of the economy and its growth, which will be reflected in the declarations of taxpayers;
- Strengthening the control of statements, based on risk criteria;
- Fiscalization through which a better and more efficient tax control is provided with a focus on taxpayers who do not declare and do not pay their obligations in accordance with the law, and also creates a mechanism for real-time supervision of fiscal equipment operating with money in cash and those without cash.

Revenues from Personal Income Tax are projected to be realized at ALL 45.2 billion, ALL 2.5 billion, or 5.8% more than in 2020. In the forecast of personal income tax revenues, economic growth and the impact of at the level of the average salary as well as the increase in the number of employees in the private sector, based on the performance of 2021.

Revenues from National Taxes are estimated to be ALL 49.7 billion, ALL 8.8 billion, or 21.6% more than a year ago.

Revenues from Customs Tax are projected to be ALL 7.5 billion, ALL 8 million, or 0.1% more than fiscal year 2021. In revenue planning, the effects of increased taxable imports are taken into account, as well as some minimal effects from the movement of customs tariffs.

Revenues from social and health insurance contributions collected by the GDT are considered to be ALL 96.3 billion, ALL 5.4 billion or 5.9% more than fiscal year 2020. Planning to increase revenues from social and health insurance contributions is supported by the following factors:

- Economic recovery which will be reflected in the increase in the number of employees;
- Strengthening the administration through control of the declared salary level and its deviation from the real salary received.

Fiscal risks

Regarding the forecast of tax and customs revenues, fiscal risks for 2022 consist of:

- Prolongation of the pandemic situation and its unforeseen real effects.
- Expected effects on the economy as a result of rising fuel and electricity prices.

Tax expenditures are considered losses from fiscal revenues provided for in applicable fiscal legislation, as a result of fiscal incentives or preferential rates set for certain categories of taxpayers or activities. "Tax expenditures" are estimated using a new methodology based on several models for estimating tax expenditures by type of tax. The analysis of legal exemptions and benchmarking (exemptions that are the norm in all countries) was carried out with the assistance of the World Bank.

The following taxes and fees have been considered for the assessment and measurement of "tax exemptions":

- Value added tax, respectively in Law no. 92/2014 "On Value Added Tax" in the Republic of Albania, as amended.
- Income tax, respectively in Law no. 8438, dated 28.12.1998, "On Income Tax", as amended.
- Excise, respectively in Law no. 61/2012 "On Excise in the Republic of Albania", as amended.

Taking into account the chain index of real economic growth, as well as the special effects that are produced as a result of changes in fiscal policies, the total preliminary value of tax expenditures is determined for the following items:

- Value Added Tax Expenditures
- Excise Tax Expenses
- Income Tax Expenses

It should be noted that most of the value of tax expenses are those expenses which arise as a result of exemptions from each of the above taxes. The vast majority of total tax expenditures are tax expense derived from VAT, and the remaining difference as excise tax expense and Profit Tax.

The estimate for tax expenditures 2020 is 77.6 billion ALL. This is a preliminary estimate, for 2020, the exact value will be published in the full periodic report of Tax Expenditures, which will be published at the end of 2021.

Priorities financed by the Medium Term Budget 2022-2024

The budget, during the years 2022-2024 will finance with priority the policies grouped according to the following areas:

Services for citizens and enterprises:

- Salary increase by 6% for employees in the health, education and defense sectors.
- Start-ups support, the payment of unemployment of oil workers as well as a sovereign guarantee of 1 billion ALL for manufacturing and entrepreneurship.
- Farmers will benefit about 12.7 billion ALL in 2022 through additional schemes for farmers, oil refund, Credit Guarantee project for rural areas and the sovereign guarantee for farmers.
- Supporting the health sector by financing the COVID-19 vaccine for 2022 with a value of 2.7 billion ALL.
- Supporting the finalization of the process of reconstruction after the Earthquake of November 2019 by funding this policy at 20 billion ALL for 2022.
- A fund of 750 million ALL is projected for the Fier Regional Hospital, as well as continue the reimbursement schemes of medicines and baby bonus policy.
- Supporting with priority social expenses by increasing economic assistance payment for 3 categories:
 - Increase by 10% the amount of economic assistance for about 50 thousand families that benefit from this assistance;
 - Doubling the economic assistance for families with 3 or more children, which benefits about 15 thousand families.
 - Triple economic assistance for 675 raped and trafficked women and 670 orphans under 18 years of age.

- Budget for 2022 will continue to support pensioners by planning the indexation of pensions (of 2.6 billion ALL) and the end-of-year bonus for pensioners (3.5 billion ALL).
- Also, the budget of 2022 provides the expenses for the payment of unemployment with 900 million ALL, for the payment of disability with 23.5 billion ALL and for the former persecuted with a fund of 1 billion ALL.
- In the education sector the budget for 2022-2024 will continue to fund the scheme of free textbooks for all students of basic education, which will be extended also to high school.
- The budget for 2022 will support the education sector by an additional fund of 250 million ALL for 2022 and onwards for the reimbursement of public transportation expenses for students and teachers living far from school.
- Higher education will get an additional fund of 700 million ALL allocated for twinning projects for Universities, reconfirming the focus of the government on youth and education.
- For the local budget expenditures, a decentralization program is being implemented, where an appropriate and effective financing scheme is targeted that sustainably improves the quality of services.

Digitization:

Digitalization reform increases the quality of services to business and citizens, as well as helps in the fight against corruption.

Investments in the drone and satellite project increase the efficiency of control in the defence and order sectors. Investments in digitalization include the relevant ministries in the sectors of order, defense, health, finance and economy, and education.

With a fund of 1.9 billion ALL, are financed scientific laboratories and information technology classes in pre-university education.

By investing in information technology training projects for young people, they will better adapt to the demands and offers in the labor market and create quality jobs.

Key infrastructure investments:

- Investments for road infrastructure will continue in some of the main projects such as: Arbri Road, Llogara Tunnel, Outer Ring of Tirana, Bypass in Shkodra and the segments Palasë-Dhërmi and Elbasan-Përrenjas-Qafë Thanë.
- Maintenance of national roads with internal financing will benefit an increase of 1 billion ALL, keeping about 2.6 billion ALL in total for road maintenance including financing of the World Bank project for road maintenance and safety.
- The budget of 2022 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 are provided in this budget (1.7 billion ALL).
- Work will continue on the project of the Theater in Tirana and the National Center for Children.
- The National Coastal Agency will get an additional fund 200 million ALL for beach cleaning before touristic season. Also, in the tourism sector, a sovereign guarantee of 1 billion ALL is provided;
- 500 million ALL are allocated to local self-government units for waste cleaning.

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 (*about 80% of the total gross financing*) in order to support the development of the domestic market for government securities and keep the foreign currency exchange risk under control (*foreign currency denominated debt/total debt less than 55%*). Despite the positive expectations in the activity of nonfinancial institutions and retail sector, domestic borrowing will continue to rely mostly on the banking sector.

Short term securities will be mostly used to refinance the existing maturities and for active liquidity management purposes, meanwhile long term securities will be used to cover the budgetary deficit. Domestic borrowing structure will remain 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 cover about 20% of the Central Government gross borrowing needs, and will contribute on the cost optimization of the debt portfolio, since a considerable part of this borrowing is expected to be conducted through concessional and semi-concessional terms. External

borrowing by bilateral and multilateral sources will be utilized mostly to finance the government strategic projects and the reforms undertaken by the government. Also, private sources of financing acquired in the international capital markets will be used, mostly in order to manage risks, manage the debt liabilities in foreign currency, and keep domestic borrowing within acceptable levels in order to avoid crowding out of the domestic private sector.

4.5. Structural balance

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

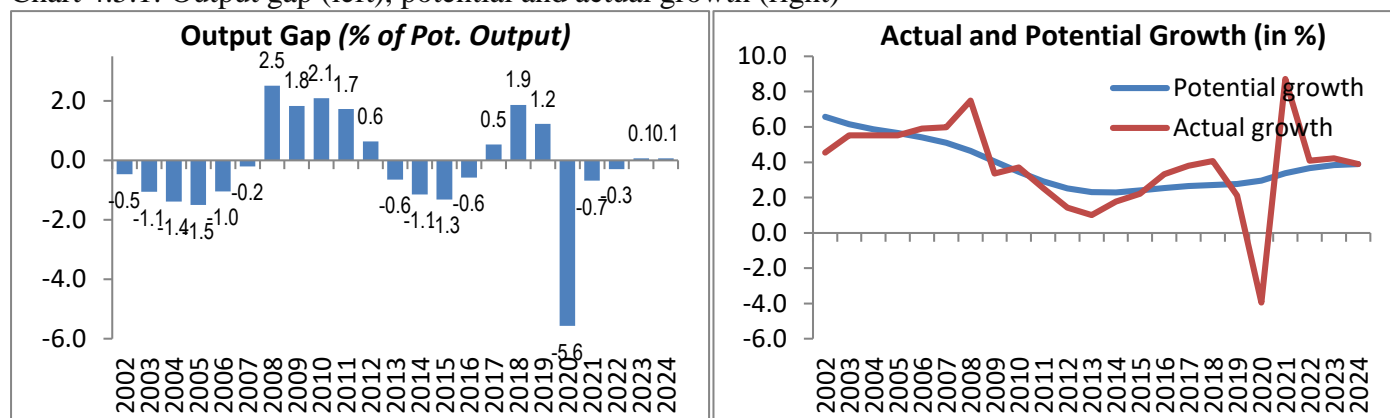
Estimating potential GDP and output gap

The HP filtering technique was deployed to estimate a time series of potential GDP. An HP-filter was applied on the actual real output (GDP) in constant prices by considering the literature most advocated values for the parameter lambda in the case of annual data, namely $\lambda = 100$; $\lambda = 30$; $\lambda = 6.5$. The potential GDP was then derived as an average of the HP-filtered series based on those three different lambda parameters. Based on the obtained potential GDP the output level is then calculated accordingly. The most recent MFE projections up to 2028 were utilized to address the end-point problem common with this filtering technique.

The output gap, formally defined as $G_t = \frac{GDP_{t,actual} - GDP_{t,potential}}{GDP_{t,potential}}$ is presented on the left side of figure below.

While the respective potential growth versus actual one is presented on the right side.

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



Source: Ministry of Finance and Economy

The results indicate that the actual output has been below potential for the period 2002 – 2006, almost closing in 2007 and then jumping to a relatively large positive gap in 2008. The last positive shift in output gap persisted somehow also during 2009-2012 gradually shrinking in reflection of a lower actual growth compared to the potential one due to the negative effects of the global financial crises. Despite Albania managed to absorb relatively much smoother the first hit from the global crises in 2009 and avoided a likely severe recession which took place in most of the other countries, still the actual growth was weakened substantially compared to pre-crisis levels but also compared to its potential one. In 2013 the lowest growth was recorded and at the same time the output gap shifted on negative territory and staying into negative until 2016 with the trough reached in 2015. The output gap shifted slightly into positive territory by 2017, intensified strongly in 2018 and also persisted strong in 2019 as well, despite lower actual growth in that year, particularly the growth of last quarter when the country was hit by the November earthquake. In 2020, most importantly due to the pandemic Covid-19 shock which forced the economy into a sharp recession of about -4 percent but also reflecting to some degree the significant slowdown of actual growth which already took place in 2019, output gap reached the most negative point in decades by about -5.6 percent of potential GDP. Although the actual growth is foreseen to pick up strongly in 2021 and continuing rather strong over the medium term, hence leading the output to gradually converge toward its potential, still, due to the drastic loss of output in 2020, the negative output gap is foreseen to persist until 2022 and then converge to its potential by 2023 and 2024.

Estimating elasticity and budget sensitivity to output gap

After removing one-off items present in the fiscal indicators, the revenues' and expenditures' elasticity's are estimated based on both the disaggregated (OECD 2005 approach) and aggregated approach (IMF 2010 approach). However, the final overall elasticity obtained from each approach were quite similar. More specifically, the overall revenue elasticity derived from specific revenue items' elasticity's estimated through the disaggregated approach was 1.031, while the revenue elasticity estimated from the aggregated approach was 1.460.¹⁰ Total revenues were adjusted for cyclical effects by applying the average elasticity obtained from both approaches, specifically:

$$\varepsilon_{R,Y} = \text{average}(1.031, 1.460) = 1.246$$

The expenditure's elasticity didn't differ from zero. The regression analysis yielded expenditures elasticity with a negative sign based on both approaches but none of them was significant at conventional levels, implying an elasticity coefficient equal to zero:

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

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

$$\sigma_B \equiv r(\varepsilon_{R,Y} - 1) - g(\varepsilon_{G,Y} - 1) = 0.256(1.246 - 1) - 0.265(0 - 1) = 0.327$$

Where $r = 0.256$: is the average ratio of total revenues to GDP (excluding one-offs) for the last five years (2016 – 2020); $g = 0.256$ is the average ratio of primary expenditures to GDP (excluding one-offs) for the last five years (2016 – 2020). The estimated parameter of budget sensibility implies that for each percentage point of negative (positive) output gap the overall primary fiscal balance will deteriorate (improve) by 0.327 percentage points of potential GDP.

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

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

$$CBT_t = \sigma_B * OG_t$$

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 after subtracting interest expenditures (INT) to the cyclically adjusted primary balance:

$$CAB_t = CAPB_t - INT_t$$

Fiscal impulse (FI) in terms of potential GDP is the change of the cyclically adjusted primary balance at each year relative to the previous one:

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

Based on the direction of fiscal impulse (tightening or easing) and output gap (negative or positive) a simple assessment as regards the nature of fiscal policy stance is presented, whether it has been pro-cyclical, counter-cyclical or neutral during certain periods of time. The obtained results are presented in the following tables and graph.

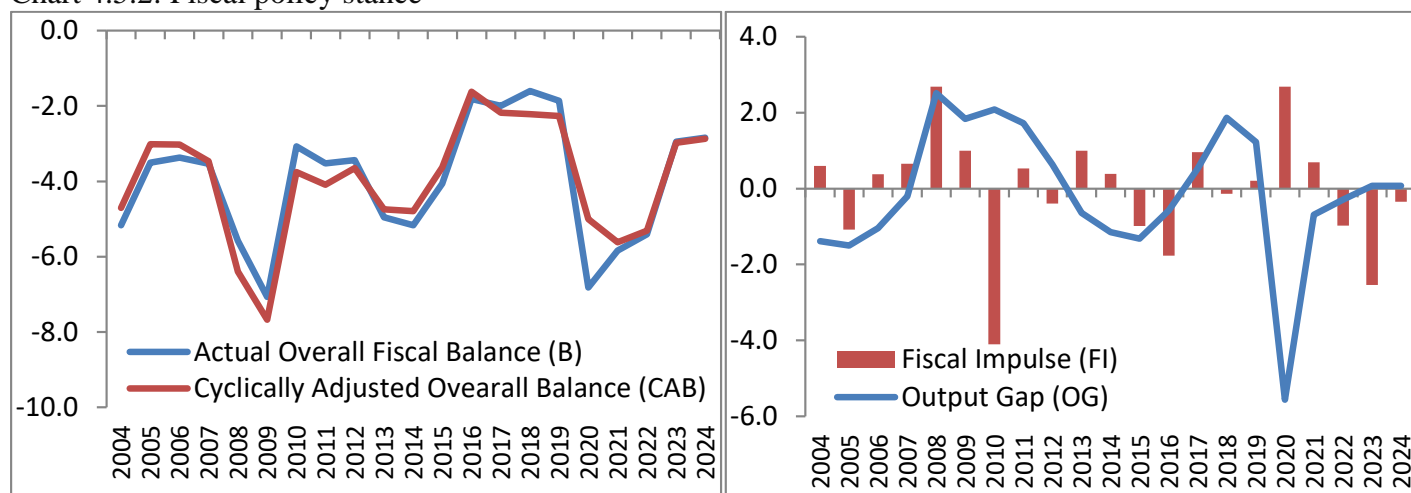
¹⁰ Due to lack of data and relatively short series, in the case of disaggregated approach some of the estimated elasticity / coefficients were not significant at conventional levels and several assumptions were imposed.

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
1999	1.4	-9.6	-1.7	0.5	-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	Neutral
2001	1.5	-7.2	-3.0	0.5	-3.5	4.2	-7.7	0.3	1.2	Pro-cyclical
2002	-0.5	-6.2	-2.2	-0.2	-2.0	4.1	-6.1	-0.6	-1.5	Pro-cyclical
2003	-1.1	-5.0	-0.6	-0.3	-0.3	4.4	-4.7	-0.2	-1.7	Pro-cyclical
2004	-1.4	-5.2	-1.3	-0.5	-0.9	3.9	-4.7	-0.1	0.6	Counter-cyc
2005	-1.5	-3.5	-0.3	-0.5	0.2	3.2	-3.0	0.0	-1.1	Pro-cyclical
2006	-1.0	-3.4	-0.5	-0.3	-0.2	2.9	-3.0	0.1	0.4	Counter-cyc
2007	-0.2	-3.5	-0.9	-0.1	-0.8	2.7	-3.5	0.3	0.7	Counter-cyc
2008	2.5	-5.6	-2.7	0.8	-3.5	2.9	-6.4	0.9	2.7	Pro-cyclical
2009	1.8	-7.1	-3.9	0.6	-4.5	3.2	-7.7	-0.2	1.0	Pro-cyclical
2010	2.1	-3.1	0.3	0.7	-0.4	3.4	-3.8	0.1	-4.1	Counter-cyc
2011	1.7	-3.5	-0.4	0.6	-0.9	3.2	-4.1	-0.1	0.5	Pro-cyclical
2012	0.6	-3.4	-0.3	0.2	-0.5	3.1	-3.6	-0.4	-0.4	Counter-cyc
2013	-0.6	-5.0	-1.7	-0.2	-1.5	3.2	-4.7	-0.4	1.0	Counter-cyc
2014	-1.1	-5.2	-2.3	-0.4	-1.9	2.9	-4.8	-0.2	0.4	Counter-cyc
2015	-1.3	-4.1	-1.4	-0.4	-0.9	2.7	-3.6	-0.1	-1.0	Pro-cyclical
2016	-0.6	-1.8	0.7	-0.2	0.8	2.5	-1.6	0.2	-1.8	Pro-cyclical
2017	0.5	-2.0	0.1	0.2	-0.1	2.1	-2.2	0.4	1.0	Pro-cyclical
2018	1.9	-1.6	0.6	0.6	0.0	2.2	-2.2	0.4	-0.1	Neutral
2019	1.2	-1.9	0.2	0.4	-0.2	2.1	-2.3	-0.2	0.2	Neutral
2020	-5.6	-6.8	-4.7	-1.8	-2.9	2.1	-5.0	-2.2	2.7	Counter-cyc
2021	-0.7	-5.8	-3.8	-0.2	-3.6	2.1	-5.6	1.6	0.7	Counter-cyc
2022	-0.3	-5.4	-2.7	-0.1	-2.6	2.7	-5.3	0.1	-1.0	Pro-cyclical
2023	0.1	-2.9	0.0	0.0	0.0	2.9	-3.0	0.1	-2.5	Counter-cyc
2024	0.1	-2.8	0.3	0.0	0.3	3.2	-2.9	0.0	-0.3	Counter-cyc

Source: Ministry of Finance and Economy

Chart 4.5.2: Fiscal policy stance



Source: Ministry of Finance and Economy

Table 4.5.2: Fiscal policy relative to economic cycles

Fiscal stance	Unit	Number of years	
		2000 - 2021	2022 - 2024
Pro-cyclical	number	10	1
Counter-cyclical	number	8	2
Neutral	number	3	0
Cumulative output gap v.s. Cumulative fiscal impulse --> Overall fiscal stance			
Cumulative output gap	p.p. of GDP	-1.2	-0.1
Cumulative fiscal impulse	p.p. of GDP	1.4	-3.9
Overall fiscal stance		Counter-cyclical	Pro-cyclical

Source: Ministry of Finance and Economy

This simple descriptive analysis shows that during 2000 – 2021 the fiscal policy stance has been pro-cyclical in 10 years, counter-cyclical in eight years and neutral in three of them. When measured as a cumulative sum of fiscal impulses during all years (2000-2021) relative to the cumulative output gap for those respective years, the fiscal stance results broadly counter-cyclical. More specifically, the cumulative output gap for 2000-2021 results negative at -1.2 percentage points of potential GDP, while the cumulative fiscal impulses for the respective period results positive of 1.4 percentage points of GDP.

While for the three-year horizon ahead (2022-2024), while the cumulative output gap is foreseen to almost zero but still negative, as the actual output gradually converges towards its potential recovering from the huge loss in 2020, the cumulative fiscal stance is also targeted to be considerably negative. This indicates a rather pro-cyclical fiscal policy, likely reflecting the relatively high-level public debt and therefore implying for a higher importance being given toward the objective of ensuring long term sustainability of public finance versus the objective of short-term stabilization of economic cycles. The clear direction towards a stronger consolidating path takes even more importance out of the necessity to improve faster the main public finances parameters in the afterwards of the significant deterioration in 2020. Therefore, in the current three-year program the cumulative fiscal stance during 2022-2024 is targeted to be rather pro-cyclical in cumulative terms for the whole time horizon.

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

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

From January to September 2021, Public Debt has generally been managed in accordance with the medium-term strategic objectives for maintaining the stability of the relationship between cost and risk ratios. Despite the growing funding needs that characterized this year as well following the 2020 year on the COVID-19 pandemic ground, and 2019 when Albania was hit by the strong earthquake, borrowing during this period has fully met budgetary needs, as well as all needs arising from existing debt obligations. Overall borrowing was realized by using both domestic and external sources, respectively at the levels of ALL 279.3 billion and ALL 31.7 billion. Also, activities that intend the further development of the primary market for government securities have been undertaken. Beyond September 2021, it is worth mentioning the successful issuance of Eurobond at the amount of EUR 650 million in international markets. The Eurobond issuance, in addition to meeting the needs for liquidity, sent a positive signal in terms of the ability to provide funding and the stability of public finances in the Republic of Albania.

Central Government Debt Development

By the end of September 2021, the central government debt amounted at ALL 1,281.8 billion or 76.2% of the GDP¹¹. Compared to the end of 2020, central government debt stock increased by about ALL 57.8 billion in absolute terms, of which ALL 53 billion corresponded to the growth of domestic debt and ALL 4.8 billion to external debt. In relative terms, debt stock to GDP ratio has been declined in the end of September 2021 compared with the level of end of 2020. This is however a temporary decrease since the main external borrowing was to be realized after September 2021, which will significantly affect the debt level.

¹¹ GDP on annual basis, as referred in the Macro-Fiscal Framework 2022-2024.

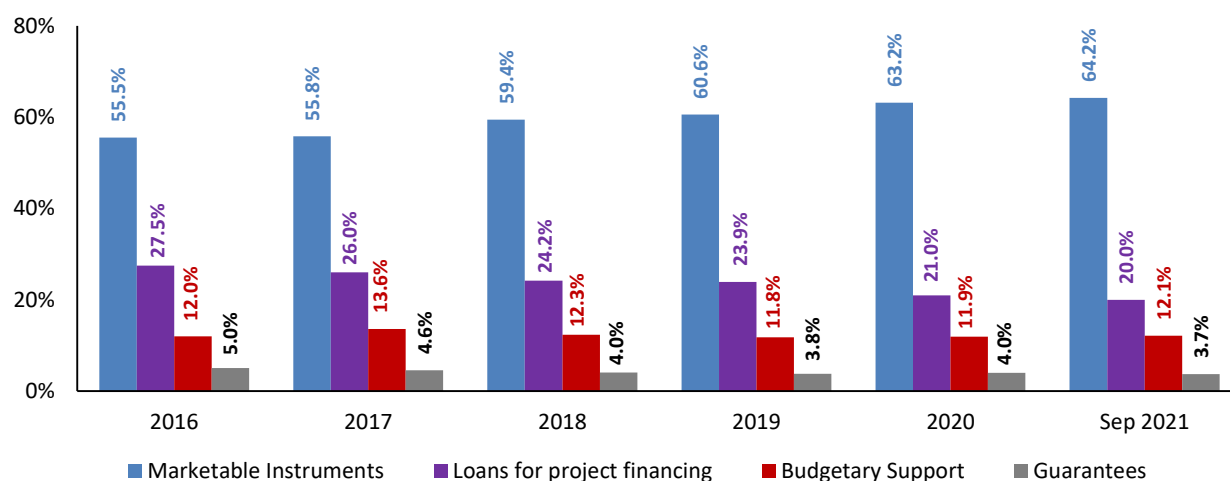
Table 4.6.1: Stock of total central government debt

	(in million ALL)					
	2016	2017	2018	2019	2020	Sep 2021
Total Debt Stock (I+II)	1.065.709,0	1.087.341,9	1.106.568,8	1.112.044,2	1.224.038,2	1.281.791,3
I. Domestic Debt Stock	561.120,0	577.055,7	580.310,3	597.290,0	644.087,8	697.043,4
Government	530.834,0	546.938,7	565.092,5	582.135,6	630.791,1	682.829,4
Guaranteed	30.286,0	30.117,0	15.217,8	15.154,4	13.296,7	14.214,0
II. External Debt Stock	504.589,0	510.286,2	526.258,5	514.754,2	579.950,4	584.747,9
Government	481.407,0	490.517,9	496.804,2	488.055,8	544.434,4	551.423,0
Guaranteed	23.182,0	19.768,2	29.454,3	26.698,4	35.516,0	33.324,9
GDP	1.472.479,6	1.550.644,0	1.635.715,0	1.679.284,2	1.572.269,4	1.682.636,9
Total Debt Stock/GDP	72,4%	70,1%	67,7%	66,2%	77,9%	76,2%
Domestic Debt Stock/GDP	38,1%	37,2%	35,5%	35,6%	41,0%	41,4%
External Debt Stock/GDP	34,3%	32,9%	32,2%	30,7%	36,9%	34,8%

Source: Ministry of Finance and Economy, 2021

In terms of instrument composition, more than 60% of the weight is still held by marketable instruments (treasury bills, bonds, Eurobonds). Marketable instruments have marked an increase of 1 pp compared to the end of 2020, meanwhile the loans for project has been reduced at the same extend.

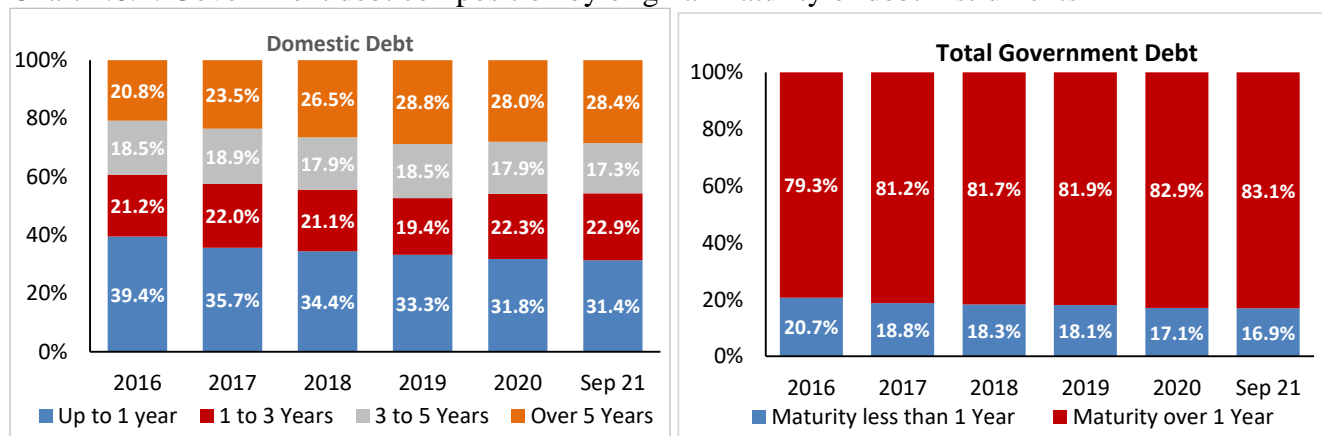
Chart 4.6.1: Central government debt composition by instrument type



Source: Ministry of Finance and Economy, 2021

In line with the strategic objectives for risk mitigation purposes the share of long term government domestic debt increased by 0.4 percentage points.

Chart 4.6.2: Government debt composition by original maturity of debt instruments



Source: Ministry of Finance and Economy, 2021

Financing Needs

During the period January- September 2021, the government funding needs continued to remain higher than normal periods of time, in the ground where the COVID-19 pandemic is still present in one side, and the economy has to be recovered after the strong recession of 2020 in the other side. Despite the high funding needs, borrowing has fully met budgetary needs, as well as all needs arising from existing debt obligations. During nine months of 2021, the government has issued securities in the amount of ALL 279.3 billion in the domestic market (*ALL 233.6 billion enabled the refinancing of existing securities*). In line with the strategic objectives, new borrowing in the domestic market has been realized mainly through long term government securities.

Table 4.6.2: Domestic Borrowing (January-September 2021)

Type of Instrument	January-September 2021			
	Issuance (in billion ALL)	Maturities (in billion ALL)	Net Financing (in billion ALL)	Net Financing (in %)
Short Term Instruments	178,7	171,6	7,1	15,5%
Treasury Bills	178,7	171,6	7,1	15,5%
Treasury Bills Euro	0,0	0,0	0,0	0,0%
Long Term Instruments	100,6	62,0	38,7	84,5%
2 Year Bonds	37,7	31,8	5,9	12,8%
2 Year Bonds in Euro	0,0	0,0	0,0	0,0%
3 Year Bonds	15,1	5,0	10,1	22,0%
5 Year Bonds	19,7	14,5	5,2	11,4%
7 Year Bonds	14,1	10,6	3,6	7,8%
10 Year Bonds	13,9	0,0	13,9	30,5%
Total	279,3	233,6	45,7	100,0%

Source: Ministry of Finance and Economy, 2021

External borrowing during nine months of 2021 amounted at EUR 258 million. Despite the funds realised through multilateral and bilateral creditors for project financing, during 9 months of 2021 it is worth mentioning:

- The World Bank Budget Support in the amount of 80 million USD on Policies to develop fiscal sustainability and growth.
- The European Union Budget Support, first tranche in the amount of 90 million Euro on the Macro Fiscal Assistance.

Table 4.6.3: External Borrowing

	9m. 2020		9m. 2021	
	Amount (in million EUR)	% of Total	Amount (in million EUR)	% of Total
Total Disbursements	923,6	100,0%	258,0	100,0%
Eurobond	645,1	69,8%	0,0	0,0%
Budgetary Support	185,7	20,1%	157,4	61,0%
Project Financing	92,8	10,1%	100,6	39,0%

Source: Ministry of Finance and Economy, 2021

* Following the end of September 2021, three important external financing has been disbursed that will impact the debt figures of the end of 2021, such as:

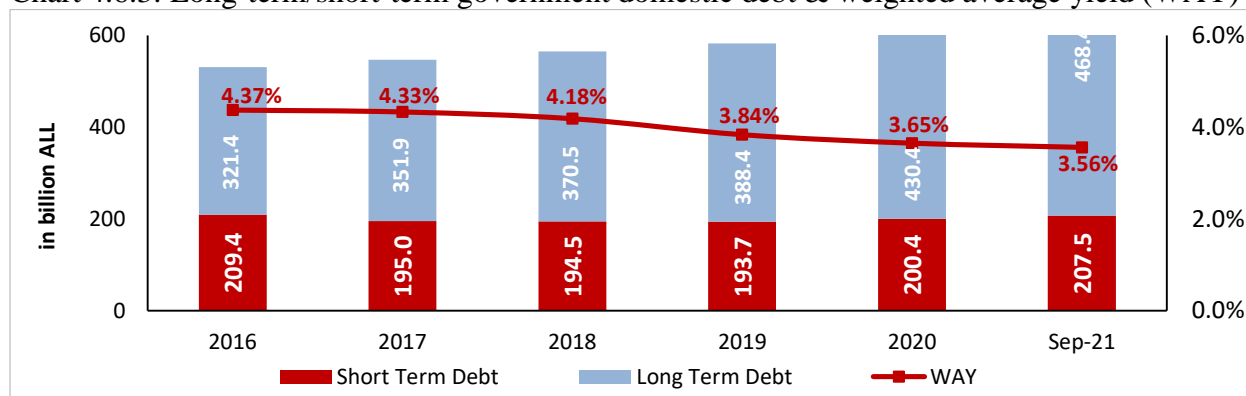
- European Union Budget Support, first tranche in the amount of 90 million Euros on the Macro Fiscal Assistance European Union Budget Support, in the amount of 90 million Euro for Macro Fiscal Assistance;
- Budget support obtained by KfW in the amount of 100 million Euro, for the reform on the energy sector.

Cost and risks

The favorable conditions in the domestic and external markets as regard the demand for sovereign debt and the low interest rate environment, accompanied with a borrowing strategy mostly based on long-term fixed interest rate securities have enabled the further reduction of risks exposure while maintaining costs under control.

Furthermore improvement in the relation between cost and risks is shown in the domestic debt side where WAY has continued to decline despite the increase in pace of long term debt.

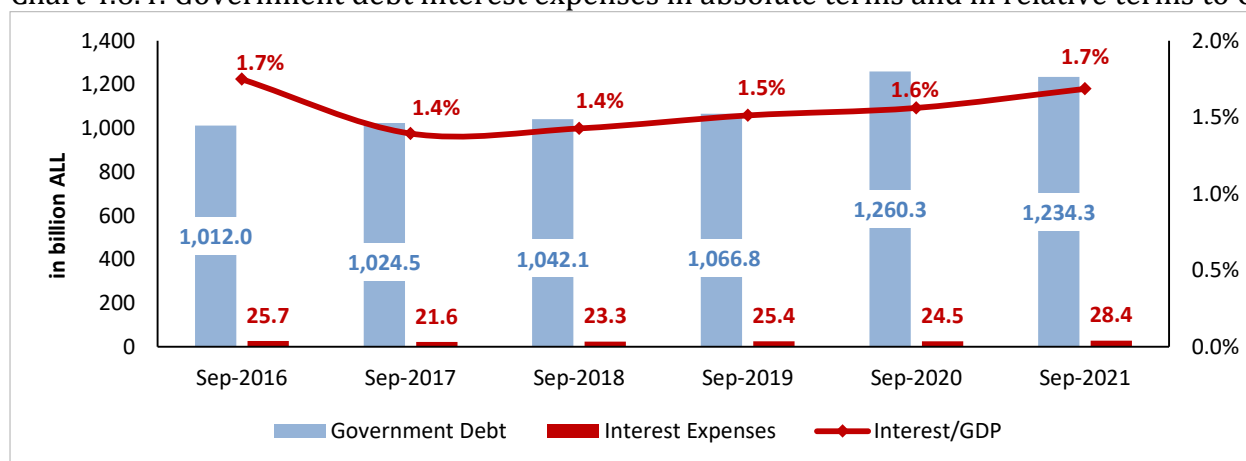
Chart 4.6.3: Long-term/short-term government domestic debt & weighted average yield (WAY)



Source: Ministry of Finance and Economy (2021)

During nine months of 2021, interest expenses amount at ALL 28.4 billion. Compared with the same period of 2020, interest expenses for government debt increased with about ALL 3.8 billion, as result of higher debt stock during the period.

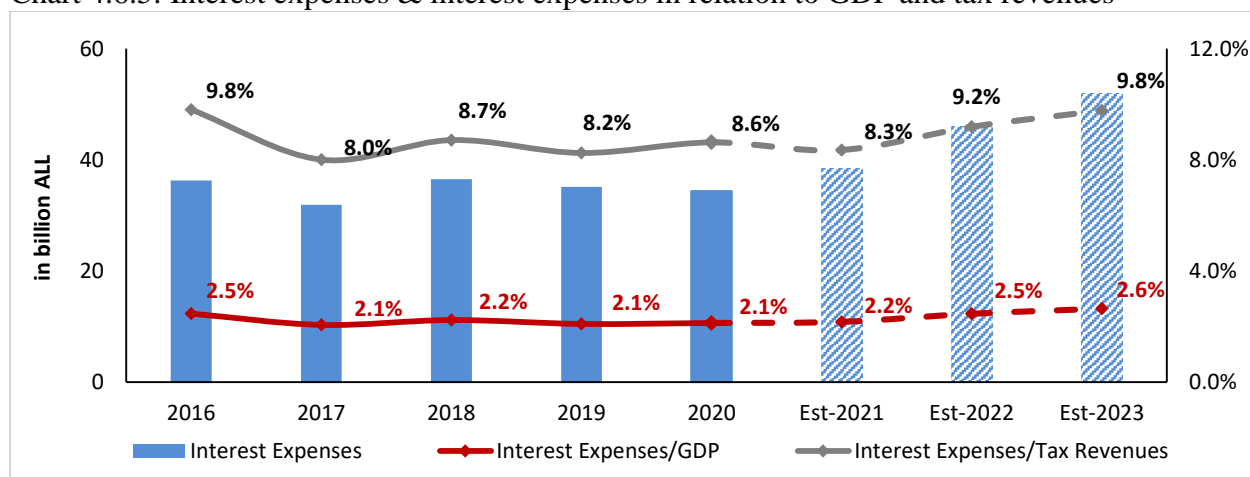
Chart 4.6.4: Government debt interest expenses in absolute terms and in relative terms to GDP



Source: Ministry of Finance and Economy, 2021

In the medium term, it is expected an increase in the expenses for debt interest payments in absolute terms, mostly due to the debt stock increase. Also, it is expected a gradual increase of interest expenses in relative terms to GDP and tax revenue.

Chart 4.6.5: Interest expenses & interest expenses in relation to GDP and tax revenues



Source: Ministry of Finance and Economy, 2021

The reduction of refinancing and interest rate risk in the domestic debt portfolio has been one of the main strategic objectives of debt management. In this regard, despite the situation created from the pandemic Covid 19, which caused an increase in the borrowing needs, the risk ratios in the domestic debt have been managed to stay stable.

External debt continues to pose less risks since it is composed by long term instruments and a considerable share of it is borrowed with concessional terms.

Refinancing risk has further declined due to the decrease in the share of short term debt. The average maturity of domestic debt surged from 783 days at the end of 2020 to 796 days by the end of September 2021.

Interest rate risk has remained stable, due to the decrease in the share of short term and variable rate instruments in the domestic debt portfolio. Average Time to Re-fixing has been increased from 2.14 to 2.19 years. Meanwhile, the share of debt which interest rate is reset within one year is increased from 46.7% in December 2020 to 49% in September 2021, as result of regular inclusion of short maturities (3 months and 6 months) in the domestic market auctions, and as result of some high maturities in bonds (2Year and 3 Year) during 2022 that impacts this indicator.

Table 4.6.4: Domestic debt interest rate risk indicators

Indicator	2018	2019	2020	Sht-21
Variable Rate Bonds/Total	6,5%	4,8%	2,9%	1,9%
Fixed Rate Bonds/Total	59,1%	62,0%	65,3%	67,4%
Re-fixed Debt in one Year/Total	54,3%	50,9%	46,7%	49,1%

Source: Ministry of Finance and Economy, 2021

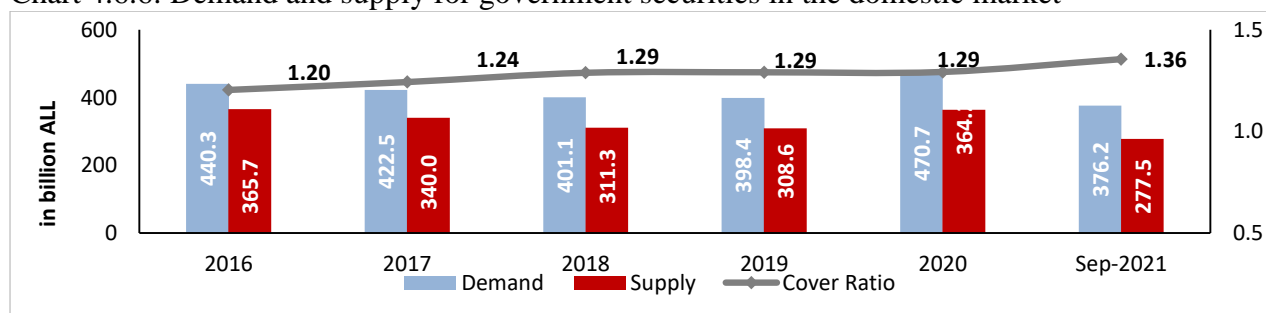
Despite the positive developments, domestic debt continues to pose a relatively high refinancing and interest rate risk that amplifies due to the absence of an active secondary market and due to the narrow base of investors. In this regard, in the medium and long term, debt management will continue its efforts to extend the average maturity of domestic debt and keep under control the share of variable rate securities.

Market Development

During the period January-September 2021, the domestic market for government securities has been characterized mainly by positive developments related to the satisfactory demand and the continuation of the Pilot Project for the issuance of the 3 Year and 5 Year Reference Bonds.

During the nine-month period, the demand for government securities amounted to ALL 376.2 billion (*ALL 224.8 billion demand for treasury bills and ALL 151.4 billion demand for bonds*). The demand for government securities has been relatively high compared to the supply and has generated an overall bid/cover ratio of 1.36. As regards demand characteristics, Investor demand for 3-month and 6-month T-bills is still present even though not very high, and these instruments are mainly used in liquidity management. Meanwhile, instruments with long-term maturity (5-year, 7-year and 10-year bonds) have shown a good demand.

Chart 4.6.6: Demand and supply for government securities in the domestic market



Source: Ministry of Finance and Economy, 2021

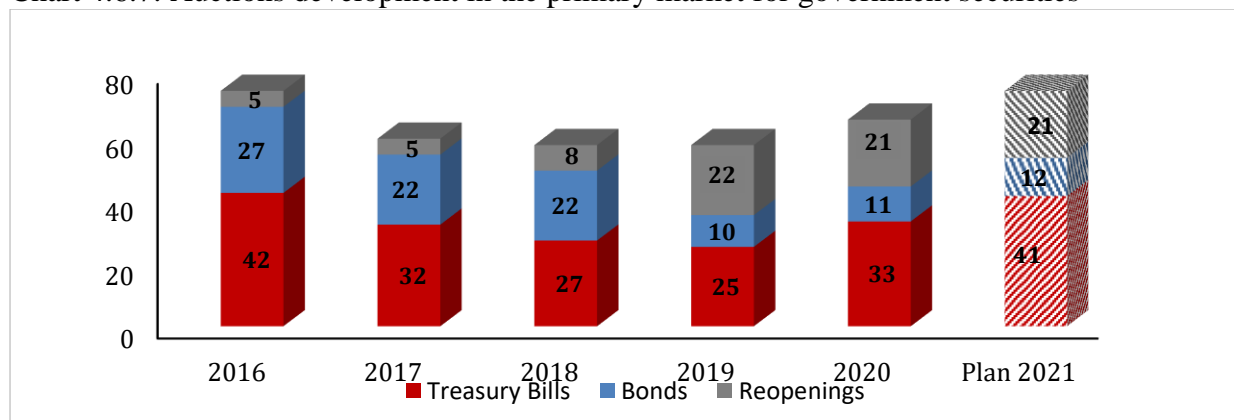
Within the framework of enhancing primary market infrastructure and stimulating the secondary market development, several activities have been undertaken during 2021.

The undertaken activities aimed the creation of benchmarks for long term securities and the reduction of demand fragmentation. As regard the benchmark creation for long term securities, the project for the 3 year

and 5 year reference bond has continued. The data of the market-maker program have shown positive results related to trade activity in the secondary market.

Furthermore, in the primary market the number of blond auctions have been consolidated, by using frequent reopening of existing issues instead of new ones (*new lines*).

Chart 4.6.7: Auctions development in the primary market for government securities



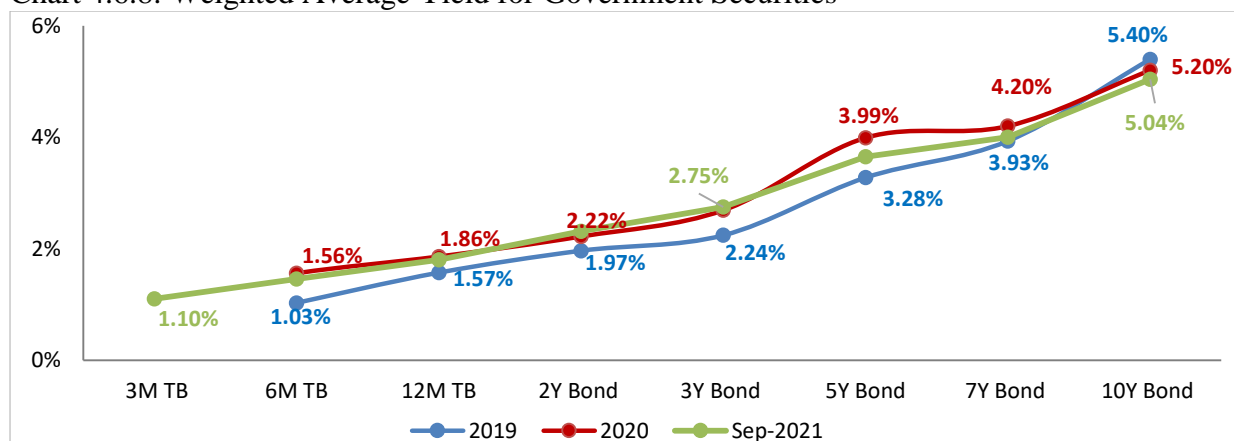
Source: Ministry of Finance and Economy, 2021

In the medium term, debt management will continue with activities in the primary market which intend to increase liquidity, efficiency and transparency.

Interest Rate Development

During 2021 (as of end of September), interest rates in the government securities market have faced a slight decrease compared with 2020 levels. The interest rates of longer maturity instruments (5Y, 7Y and 10Y) has been significantly lower than the previous year. The short maturities, treasury bills, has shown slightly decreased rates. Mid-term instruments, such as 2Y and 3Y, during 2021 has been issued at slightly higher rates compared with 2020 ones.

Chart 4.6.8: Weighted Average Yield for Government Securities



Source: Ministry of Finance and Economy (2021)

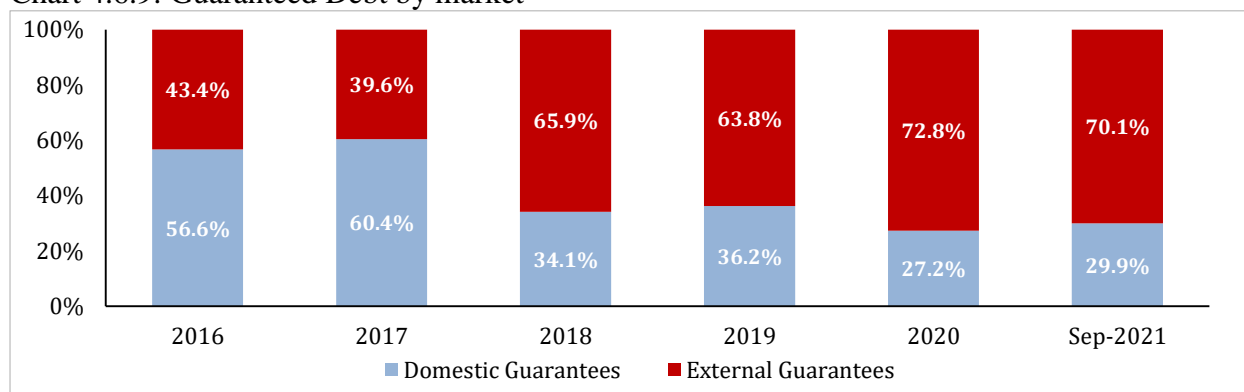
Contingent Liabilities

At the end of September 2021, guaranteed debt portfolio amounts to ALL 47.5 billion (2.8% of the GDP) or 3.7% of the central government debt portfolio. Guarantees in the domestic market account for 29.9% of the total guaranteed debt stock or ALL 14.2 billion, while guarantees issued in favor of foreign creditors represent 70.1% of the guaranteed debt stock or ALL 33.3 billion. During 2020, the Government of the Republic of Albania issued two State Guarantees, to manage the situation created from the Covid 19. To support firms with liquidity the Government of Albania issued the first Loan Guarantee in the amount of ALL 11.0 billion, to be allocated by commercial banks to companies that had difficulties in paying employee salaries. Interest rate costs were fully covered by the government, and no collateral was required from the companies. In addition to the first Loan Guarantee, the Government of Albania issued a second Loan Guarantee, in the amount of ALL 15.0 billion, providing loans for working capital and investment for all sectors of the economy. The

Government guarantees 60% of the principal, which means that the second scheme would enable the crediting of the business on an amount of up to ALL 25 billion. Up to the end of September 2021, from these guarantee schemes are approved loans for the businesses in the amounts of: (i) about ALL 5.9 billion (out of which ALL 5.3 billion already disbursed) referring to the First Guarantee Scheme, and (ii) about ALL 16.5 billion (out of which ALL 16.1 billion already disbursed) referring to the Second Guarantee Scheme (out of which, 60% is guaranteed). Deadlines for application has been expired under both schemes. Until now, there is no payment effectuated under these guarantees, and the stock of the guarantees under both schemes, as of end of September 2021, amounts to ALL 10.1 billion, or 21.3% of the total guaranteed debt stock.

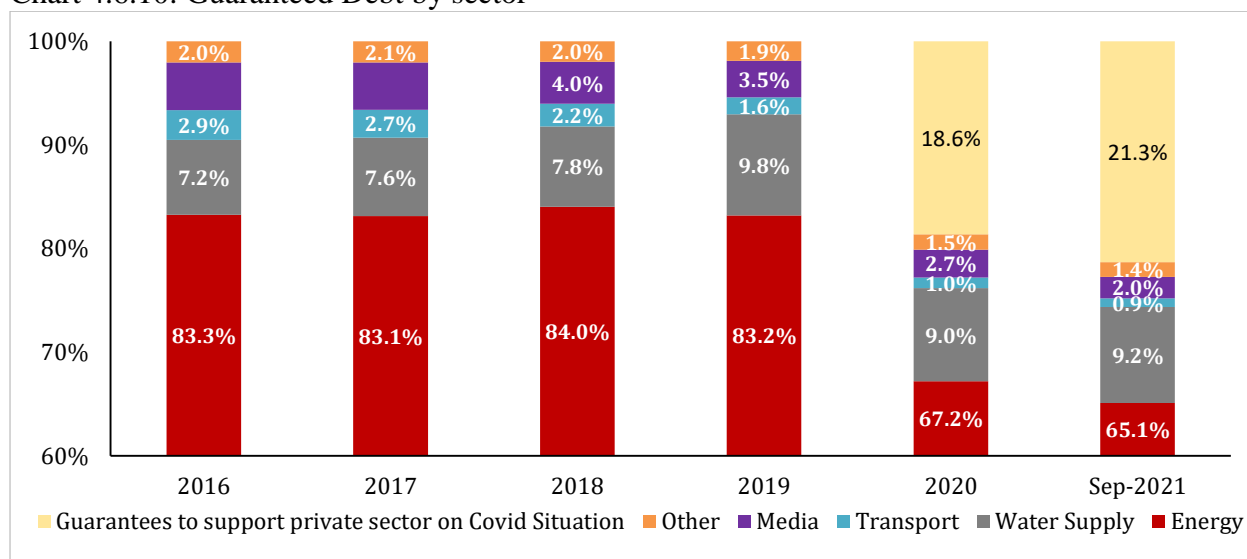
Despite the Guarantees for the business in the situation of Covid 19, domestic guaranteed debt is composed by short-term credit lines issued by national banks to KESH sh.a., while external guaranteed debt consists of long-term loans mostly with concessional or semi-concessional terms.

Chart 4.6.9: Guaranteed Debt by market



Source: Ministry of Finance and Economy (2021)

Chart 4.6.10: Guaranteed Debt by sector



Source: Ministry of Finance and Economy (2021)

In the medium term, the level of guaranteed debt is planned within the level of 5% - 6% of GDP and the new guaranteed debt will be issued mostly for purposes such as:

- To support the development projects that contribute to the improvement of infrastructure, regional development, environmental protection, and creation of new jobs;
- To support possible measures undertaken in case of potential deterioration in the financial system;
- To manage the existing contingent liabilities in order to improve the cost and risks of this portfolio.

* After end of September 2021, a package of Guarantee Agreements were concluded with four of Banks in Albania to support financing of the import of the energy by the OSHEE sh.a. The value of the financing obtained by OSHEE from the Banks, which is fully guaranteed by the Government, amounts to 81.5 million Euro.

Contingent liabilities, Concessions, and Public-Private Partnerships

Regarding PPP-s, Fiscal Risk Unit, part of the Budget Management Directorate, monitors only the progress of actual/planned payments and the performance indicators (within the budget year), for concession/PPP contracts with budget support.

Currently, there are 13 active concession/PPP contracts which receive budget support.

For the year 2021, the Initial annual plan for concession/PPP contracts with budget support, resulted about ALL 12.72 billion (about ALL 5.44 investments and ALL 7.27 billion current expenditures).

The total budget funds, planned for concession/PPP contracts, according to the changed annual plan for 2021, results at about ALL 12.11 billion of which: ALL 5.4 billion investments and about ALL 6.7 billion current expenditures.

Compared to the Initial annual plan for 2021, the changed annual plan results about ALL 608.05 million lower. This change refers specifically to:

- reduction of ALL 40.45 million for the contract "Construction and Operation Porti i Jahteve Orikum-Dukat";
- reduction of ALL 510 million for the contract "Basic control of the population (check up);
- reduction of ALL 140 million for the contract "Provision of personalized sets of surgical instruments";
- reduction of ALL 25 million for the contract "Provision of dialysis service in 5 regional hospitals";
- reduction of ALL 142.6 million for the contract "Provision of Hospital Laboratory Services" and
- increase of ALL 250 million, from the funds of the Municipality of Tirana, for the contract "For the construction of the landfill, incinerator and rehabilitation of existing landfills in Tirana and the production of electricity".

* The contract of "Basic control of the population (checkup)" was temporarily interrupted (until August 2021) due to the COVID-19 pandemic and has started the operation during September 2021.

Based on DCM no. 702, dated 18.11.2021 "On a change in decision of the Council of Ministers no. 20, dated 20.1.2021, "On the Financing of Hospital Health Services from the mandatory Health Care Insurance Scheme, for 2021", changed, the planned annual payments for 3 concession/PPP contracts budget support has been reduced, specifically for the contracts:

- "Provision of personalized sets of surgical instruments",
- "Provision of dialysis service" and
- "Provision of hospital laboratory services".

Compared to the actual payments of 2020, which reached the value of about ALL 9.63 billion, the changed annual plan for 2021 results 25.7 percent higher or about ALL 2.48 billion more. This considering that, for 2021 are planned budget funds for contracts which during 2020 had significant reductions due to the Covid-19 pandemic. This, in order to facilitate the budget burden of the difficult year 2020.

The actual payments for the 11-month period of 2021, for concession/PPP contracts with budget support, results at about ALL 9.24 billion or 76.3 percent of the changed annual plan of 2021.

For the 11-month period of 2021, the highest level of payments was realized in September 2021, with about ALL 1.7 billion, where only the payment for the contract "Construction and operation of Arbri Road" resulted ALL 1.02 billion.

Compared to the same period of the previous year, where the actual 11-month payments of 2020 reached the level of about ALL 7.95 billion, the actual 11-month payments of 2021 results about ALL 1.3 billion higher. This increase has come mainly as a result of higher payments made specifically for contracts:

- "Construction and operation of Arbri Road" up to the 11th month of 2021 resulted in payments of ALL 433.6 million higher than the same period the previous year. Regarding this increase of payments in 2021, in the September 2021 reporting, the Contracting Authority reported that the project for this contract had reached the last 9 months of works (according to the contract) and the investment in construction had reached at the rate of 70 percent. For this reason, based on the work schedule and the financial model of the contract, the installments after June 2021 are higher.
- "Provision of hospital laboratory services" up to the 11th month of 2021 resulted in payments of ALL 712.8 million, whereas for the same period in the previous year there were no payments made for this contract. This considering the fact that, for the year 2020, the operation of this contract was postponed until November 2020, due to the pandemic situation. As a result, the funds planned for 2020 were reduced by ALL 720 million from the initial annual plan.
- "Customs scan service", the actual 11-month payments of 2021 resulted in ALL 315.6 million higher than the same period of the previous year. During 2020, this contract continued the normal operation, even

though the payments from August (partially) to November 2020, were postponed (by negotiation agreement) and foreseen to be paid in installments during 2022 budget year, without applying penalties.

Table 4.6.5: Actual/planned payments for concession/PPP contracts with budget support during the 11-month of 2020 and 2021

në 000 LEK													
Contracting Authority	No.	Contract of Concession / PPP	Starting year	Ending Year	Program	Type of expenditure	Actual 2020		2021				Difference
							11 Months	12 Months	Actual 11M	Initial Plan	Revised plan	% of realization (actual 11M/revised plan)	Actual 11M 2021 11M 2020
Ministry of Infrastructure and Energy	1	Construction, operation and transfer of incinerator for urban waste processing of Elbasan Municipality	2015	2021	06220	Investime	351,669	582,720	40,292	50,000	50,000	81%	-311,377
	2	Construction, operation and transfer of incinerator for urban waste processing of Fier Municipality	2016	2022	06220	Investime	506,693	752,770	627,309	752,771	752,771	83%	120,617
	3	Construction and Operation of the Arbër Road	2018	2031	04520	Investime	2,027,110	2,691,055	2,460,737	3,375,100	3,375,100	73%	433,627
	4	Construction, Operation and Maintenance of Milot-Morinë Road	2017	2047	04520	Investime	795,300	811,734	790,027	810,259	810,259	98%	-5,273
	5	Construction and Operation Porti Jahteve Orikum - Dukat	2018	2030	04520	Investime	0	0	34,023	393,979	353,529	10%	34,023
	6	Construction and Operation Milot - Balldren	2018	2032	04520	Investime	0	0	0	65,000	65,000	0%	0
Ministry of Finance and Economy	1	Customs scan service	2013	2030	01150	Korentë	1,137,705	1,140,893	1,453,316	1,580,698	1,580,698	92%	315,611
Ministry of Health and Social Protection	1	Concession / PPP Basic control of population (check up)	2015	2025	07220	Korentë	322,322	322,322	73,007	876,090	366,090	20%	-249,315
	2	Concession / PPP (Provision of personalized sets of surgical instruments, sterile single-use medical materials in surgical rooms, treatment of biological waste and disinfection of surgical rooms)	2016	2026	07330	Korentë	1,077,991	1,288,269	1,226,928	1,704,982	1,564,982	78%	148,938
	3	Concession / PPP (Provision of dialysis service in 5 regional hospitals)	2016	2026	07330	Korentë	654,690	733,203	666,095	779,000	754,000	88%	11,405
	4	Hospital Laboratory Services	2020	2030	07330	Korentë	0	30,670	712,775	1,280,444	1,137,845	63%	712,775
Municipality of Tirana / Ministry of Education, Sports and Youth	1	Improving the educational infrastructure in Tirana Municipality	2018	2025	09120	Investime	0	0	0	0	0	0%	0
Ministry of Infrastructure and Energy / Municipality of Tirana	1	Construction of landfill, incinerator and rehabilitation of existing landfill of Tirana and electricity generation	2017	2047	06220 5100	Korentë	1,080,000	1,280,000	1,159,443	1,050,000	1,300,000	89%	79,443
	13	TOTAL					7,953,479	9,633,635	9,243,953	12,718,323	12,110,274	76%	1,290,474

Source: Ministry of Finance and Economy, 2021

4.7. Sensitivity analysis and comparison with the previous program

This section presents the expected implications on the fiscal framework as well as overall fiscal policy and budgetary possible adjustments under each scenario. It goes consistently in line with the two alternative macroeconomic scenarios presented in section 3.3.

In the case of the "pessimistic" macroeconomic scenario, which assumes a significantly lower economic growth for each year compared to the baseline, would be reasonable and adequate for this sensitivity exercise to assume lower tax collection efficiency for a number of the major tax components. Whereas, higher tax collection effectiveness might be expected should the "optimistic" macroeconomic scenario take place.

Therefore, to account for likely alterations in revenues collection performance under each alternative scenario as well as to account for “an overall net effect” of automatic stabilizers at play, in the case of the pessimistic scenario we shock the “ratio of total revenues to GDP” by one third of the respective shock (in p.p.) we introduced in the “real growth” for each year and asymmetrically shock this variable by one tenth in the case of the “optimistic” scenario.

While in each alternative scenario we keep the same assumption of the effective interest rates as in the baseline (defined as interest expenditures in year “t” divided by the debt stock in year “t-1”), we account for the alterations in respective interest expenditures levels due to higher or lower borrowing under each scenario.

The assumed nominal exchange rate remains also identical in all scenarios. One should note that embodied in each year budget there is also a contingency (legally mandatory as per the stipulations in the OBL) of about 0.3 percent of GDP which would cover any higher interest expenses due to any increase in interest rates or exchange rate depreciation.

The compliance with the fiscal rules in the OBL and therefore the overall consolidating fiscal policy is preserved in each macroeconomic scenario. However, the quantitative target of annual fiscal deficit differs in each scenario, mainly reflecting a countercyclical response toward different assumed dynamics of the economic cycle, whenever is possible within the fiscal rules compliance. Generally, it is foreseen a relaxation of the fiscal deficit target in case of the "pessimistic" scenario and a stronger fiscal consolidation in the case of the "optimistic" scenario. For instance, in the "pessimistic" scenario the fiscal policy loosening, as compared to the "baseline", would be materialized up to the extent that all the main public finances parameters (i.e. debt to GDP ratio, primary balance and current balance) will remain simultaneously compliant with all the respective fiscal rules stipulated in the Organic Budget Law. The necessary spending adjustment (measures) to ensure compliance with the fiscal rules under the "pessimistic" scenario is carried out in "domestically financed capital spending" as well as in "operational and maintenance expenditures". More specifically, the annual average reduction of capital spending during 2022-2026 under the "pessimistic" scenario versus the "baseline" is ALL 24.9 billion or about 1 percent of GDP in average for each year. Under the "pessimistic" scenario the annual average level of total CapEx during 2022-2026 drops to 4.4 percent of GDP from 5.5 percent of GDP planned in the "baseline". Operational and maintenance spending during 2022-26 reduce by an average of ALL 11.3 billion per year as compared to the baseline, or in average by 0.5 percent of GDP per year.

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".

In order to adequately serve all budget and debt service needs (i.e. financing needs) over the time horizon of five years (2026 included), three financing items, namely "net domestic borrowing", "change of liquidity stock in TSA" and "liquidity stock in TSA" are simultaneously optimised in each alternative scenario, most importantly in the "pessimistic" one. Whereas, net foreign borrowing, both commercial and concessional borrowing, in both alternative scenarios is assumed exactly the same as in the "baseline".

An implicit assumption in the case of the "pessimistic" scenario presented here is that, first, the inflation will remain in line with the monetary policy target and inflation expectations will remain well anchored and, second, as a consequence the monetary policy stance will remain broadly accommodative but still completely within the conventional framework, without any utilisation of "the unconventional" toolkit. Whereas, only in another "very extreme pessimistic" scenario, meaning only in case of a severe economic crisis which would seriously jeopardise the macroeconomic stability and long-term outlook, one might reasonably assume the utilisation of any available (and adequate to the circumstances) "unconventional" monetary policy instrument only as a last resort option and, in such a case, presumably under very close coordination and supervision of international partner institutions. At the same time, it would be quite reasonable to assume that in such a "very extreme pessimistic" scenario, a wider and deeper range of public finances adjustment/measures/reforms could and should be triggered, and probably extended over the entire public sector and publicly supplied goods/services.

The following charts and tables present the main fiscal implications of alternative scenarios.

Chart 4.7.1: Dynamics of main indicators under different scenarios

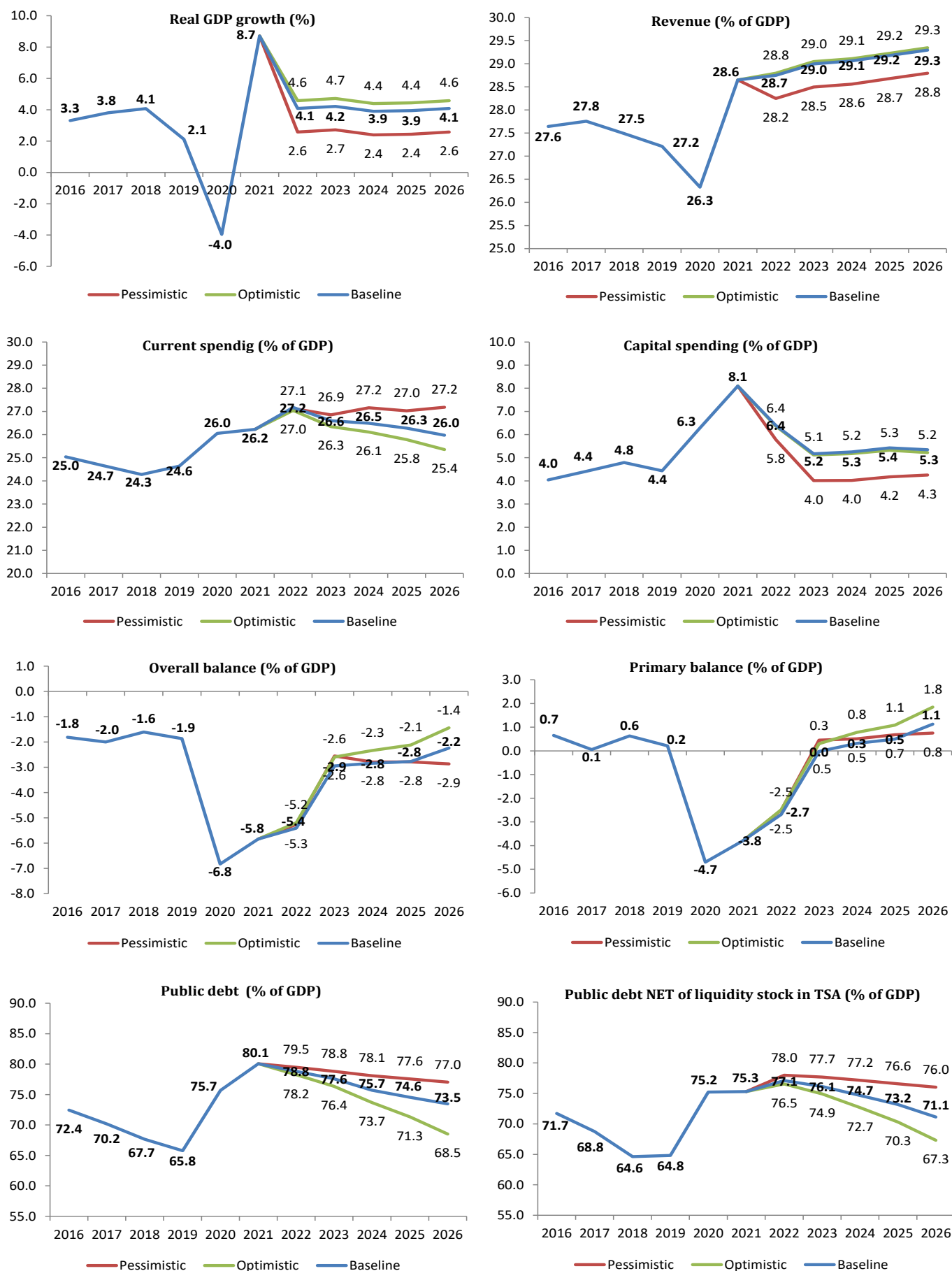


Table 4.7.1A: Main revenues and expenditures in each scenario (in billion ALL)

	2016	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Total Revenue											
Baseline	407.0	430.4	449.9	460.3	425.9	506.9	536.8	569.7	601.8	637.0	673.6
Pesimistic							519.9	543.9	566.2	590.7	615.7
Optimistic							540.3	576.2	611.6	650.4	691.1
Total expenditures											
Baseline from which:	433.7	461.4	476.1	491.9	536.3	610.2	637.7	627.6	660.6	697.6	725.0
Current expenditures from which:	368.7	382.3	397.3	416.9	421.4	464.0	507.3	522.6	548.5	573.7	597.1
Operational & Maintenance	44.3	43.4	45.5	47.2	48.9	58.8	63.2	59.5	61.5	63.7	65.6
Interest	36.3	31.9	36.5	35.1	34.4	36.3	50.8	57.4	65.5	71.3	77.4
Capital expenditures from which:	59.5	68.5	78.4	75.0	101.7	143.2	119.4	101.6	108.7	118.4	122.9
Domestic financing	39.1	46.2	52.2	51.5	60.6	79.2	63.8	62.1	66.4	69.4	72.3
Foreign financing	20.4	22.3	26.2	23.5	24.5	29.0	34.5	37.7	40.4	46.6	46.6
Reconstruction fund					16.6	35.0	20.0	0.0	0.0	0.0	0.0
Pesimistic from which:							616.7	592.6	621.6	648.1	677.0
Current expenditures from which:							499.3	512.6	538.5	556.7	581.1
Operational & Maintenance							55.2	49.5	51.5	46.7	49.6
Interest							50.8	57.4	65.5	71.3	77.4
Capital expenditures from which:							106.4	76.6	79.7	85.9	90.9
Domestic financing							50.8	37.1	37.4	36.9	40.3
Foreign financing							34.5	37.7	40.4	46.6	46.6
Reconstruction fund							20.0	0.0	0.0	0.0	0.0
Optimistic from which:							637.7	627.6	660.6	697.6	725.0
Current expenditures from which:							507.3	522.6	548.5	573.7	597.1
Operational & Maintenance							63.2	59.5	61.5	63.7	65.6
Interest							50.8	57.4	65.5	71.3	77.4
Capital expenditures from which:							119.4	101.6	108.7	118.4	122.9
Domestic financing							62.8	61.1	65.4	68.4	71.3
Foreign financing							34.5	37.7	40.4	46.6	46.6
Reconstruction fund							20.0	0.0	0.0	0.0	0.0

Source: Ministry of Finance and Economy

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

	2016	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Overall balance											
<i>Baseline</i>	-26.7	-31.0	-26.2	-31.5	-110.4	-103.3	-100.9	-57.9	-58.8	-60.6	-51.4
<i>Pesimistic</i>							-96.8	-48.7	-55.4	-57.3	-61.3
<i>Optimistic</i>							-97.4	-51.4	-49.0	-47.1	-33.9
Financing of overall balance											
<i>Baseline from which:</i>	26.7	31.0	26.2	31.5	110.4	103.3	100.9	57.9	58.8	60.6	51.4
Net domestic borrowing	10.6	16.3	19.6	17.8	48.4	49.9	50.0	50.0	50.0	50.0	50.0
Change of liquidity stock in TSA	0.3	-11.0	-30.5	16.6	14.7	-76.1	51.9	3.4	7.1	-8.8	-23.2
Net foreign borrowing from which:	17.5	29.1	33.1	-9.4	60.9	123.5	-1.0	4.5	1.7	19.3	24.7
Earmarked project financing	18.8	23.4	21.2	20.5	17.0	21.0	23.5	25.7	28.4	34.1	34.3
Eurobond	0.0	0.0	62.5	0.0	80.5	78.6	0.0	60.5	60.5	60.5	81.1
Budgetary support from IFIs	21.1	31.3	0.9	1.6	23.8	57.4	17.3	0.0	0.0	0.0	0.0
Repayments	-22.0	-25.8	-51.7	-29.8	-61.7	-34.1	-42.5	-82.2	-88.2	-76.2	-91.7
Other flows	-1.7	-3.4	4.1	6.5	-13.7	6.0	0.0	0.0	0.0	0.0	0.0
<i>Pesimistic from which:</i>							96.8	48.7	55.4	57.3	61.3
Net domestic borrowing							40.9	38.8	50.6	39.8	37.9
Change of liquidity stock in TSA							56.9	5.4	3.1	-1.8	-1.2
Net foreign borrowing from which:							-1.0	4.5	1.7	19.3	24.7
Earmarked project financing							23.5	25.7	28.4	34.1	34.3
Eurobond							0.0	60.5	60.5	60.5	81.1
Budgetary support from IFIs							17.3	0.0	0.0	0.0	0.0
Repayments							-42.5	-82.2	-88.2	-76.2	-91.7
Other flows							0.0	0.0	0.0	0.0	0.0
<i>Optimistic from which:</i>							97.4	51.4	49.0	47.1	33.9
Net domestic borrowing							46.5	43.5	40.2	29.6	14.5
Change of liquidity stock in TSA							51.9	3.4	7.1	-1.8	-5.2
Net foreign borrowing from which:							-1.0	4.5	1.7	19.3	24.7
Earmarked project financing							23.5	25.7	28.4	34.1	34.3
Eurobond							0.0	60.5	60.5	60.5	81.1
Budgetary support from IFIs							17.3	0.0	0.0	0.0	0.0
Repayments							-42.5	-82.2	-88.2	-76.2	-91.7
Other flows							0.0	0.0	0.0	0.0	0.0
Primary balance											
<i>Baseline</i>	9.6	0.9	10.3	3.6	-76.0	-67.0	-50.1	-0.5	6.6	10.8	26.0
<i>Pesimistic</i>							-46.1	8.7	10.1	14.0	16.1
<i>Optimistic</i>							-46.6	6.0	16.4	24.2	43.5
Current balance											
<i>Baseline</i>	32.8	37.4	52.2	43.4	-8.7	39.9	18.6	43.7	49.9	57.9	71.5
<i>Pesimistic</i>							9.6	27.8	24.4	28.6	29.6
<i>Optimistic</i>							22.1	50.2	59.7	71.3	89.0
Public debt											
<i>Baseline</i>	1,066.6	1,088.2	1,107.3	1,112.6	1,224.5	1,416.5	1,471.7	1,524.6	1,568.0	1,627.8	1,689.4
<i>Pesimistic</i>							1,462.7	1,504.4	1,548.4	1,597.9	1,647.3
<i>Optimistic</i>							1,468.2	1,514.6	1,548.3	1,587.6	1,613.6
Liquidity stock in Treasury Single Account (TSA)											
<i>Baseline</i>	10.5	21.9	49.4	16.2	7.8	83.9	32.1	28.7	21.5	30.3	53.5
<i>Pesimistic</i>							27.1	21.7	18.5	20.3	21.5
<i>Optimistic</i>							32.1	28.7	21.5	23.3	28.5
Public debt NET of liquidity stock in TSA											
<i>Baseline</i>	1,056.1	1,066.3	1,057.8	1,096.5	1,216.7	1,332.6	1,439.7	1,496.0	1,546.5	1,597.5	1,635.9
<i>Pesimistic</i>							1,435.6	1,482.7	1,529.8	1,577.6	1,625.8
<i>Optimistic</i>							1,436.1	1,486.0	1,526.7	1,564.3	1,585.1

Source: Ministry of Finance and Economy

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

	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026
						Est.	Proj.	Proj.	Proj.	Proj.	Proj.
Total Revenue											
Baseline	27.6	27.8	27.5	27.2	26.3	28.6	28.7	29.0	29.1	29.2	29.3
Pessimistic							28.2	28.5	28.6	28.7	28.8
Optimistic							28.8	29.0	29.1	29.2	29.3
Total expenditures											
Baseline from which:	29.5	29.8	29.1	29.1	33.2	34.5	34.1	31.9	31.9	32.0	31.5
Current expenditures from which:	25.0	24.7	24.3	24.6	26.0	26.2	27.2	26.6	26.5	26.3	26.0
Operational & Maintenance	3.0	2.8	2.8	2.8	3.0	3.3	3.4	3.0	3.0	2.9	2.9
Interest	2.5	2.1	2.2	2.1	2.1	2.1	2.7	2.9	3.2	3.3	3.4
Capital expenditures from which:	4.0	4.4	4.8	4.4	6.3	8.1	6.4	5.2	5.3	5.4	5.3
Domestic financing	2.7	3.0	3.2	3.0	3.7	4.5	3.4	3.2	3.2	3.2	3.1
Foreign financing	1.4	1.4	1.6	1.4	1.5	1.6	1.8	1.9	2.0	2.1	2.0
Reconstruction fund					1.0	2.0	1.1	0.0	0.0	0.0	0.0
Pessimistic from which:							33.5	31.1	31.4	31.5	31.7
Current expenditures from which:							27.1	26.9	27.2	27.0	27.2
Operational & Maintenance							3.0	2.6	2.6	2.3	2.3
Interest							2.8	3.0	3.3	3.5	3.6
Capital expenditures from which:							5.8	4.0	4.0	4.2	4.3
Domestic financing							2.8	1.9	1.9	1.8	1.9
Foreign financing							1.9	2.0	2.0	2.3	2.2
Reconstruction fund							1.1	0.0	0.0	0.0	0.0
Optimistic from which:							34.0	31.6	31.4	31.3	30.8
Current expenditures from which:							27.0	26.3	26.1	25.8	25.4
Operational & Maintenance							3.4	3.0	2.9	2.9	2.8
Interest							2.7	2.9	3.1	3.2	3.3
Capital expenditures from which:							6.4	5.1	5.2	5.3	5.2
Domestic financing							3.3	3.1	3.1	3.1	3.0
Foreign financing							1.8	1.9	1.9	2.1	2.0
Reconstruction fund							1.1	0.0	0.0	0.0	0.0

Source: Ministry of Finance and Economy

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

	2016	2017	2018	2019	2020	2021 Est.	2022 Proj.	2023 Proj.	2024 Proj.	2025 Proj.	2026 Proj.
Overall balance											
<i>Baseline</i>	-1.8	-2.0	-1.6	-1.9	-6.8	-5.8	-5.4	-2.9	-2.8	-2.8	-2.2
<i>Pessimistic</i>							-5.3	-2.6	-2.8	-2.8	-2.9
<i>Optimistic</i>							-5.2	-2.6	-2.3	-2.1	-1.4
Financing of overall balance											
<i>Baseline from which:</i>	1.8	2.0	1.6	1.9	6.8	5.8	5.4	2.9	2.8	2.8	2.2
Net domestic borrowing	0.7	1.1	1.2	1.1	3.0	2.8	2.7	2.5	2.4	2.3	2.2
Change of liquidity stock in TSA	0.0	-0.7	-1.9	1.0	0.9	-4.3	2.8	0.2	0.3	-0.4	-1.0
Net foreign borrowing <i>from which:</i>	1.2	1.9	2.0	-0.6	3.8	7.0	-0.1	0.2	0.1	0.9	1.1
Earmarked project financing	1.3	1.5	1.3	1.2	1.1	1.2	1.3	1.3	1.4	1.6	1.5
Eurobond	0.0	0.0	3.8	0.0	5.0	4.4	0.0	3.1	2.9	2.8	3.5
Budgetary support from IFIs	1.4	2.0	0.1	0.1	1.5	3.2	0.9	0.0	0.0	0.0	0.0
Repayments	-1.5	-1.7	-3.2	-1.8	-3.8	-1.9	-2.3	-4.2	-4.3	-3.5	-4.0
Other flows	-0.1	-0.2	0.2	0.4	-0.8	0.3	0.0	0.0	0.0	0.0	0.0
<i>Pessimistic from which:</i>							5.3	2.6	2.8	2.8	2.9
Net domestic borrowing							2.2	2.0	2.6	1.9	1.8
Change of liquidity stock in TSA							3.1	0.3	0.2	-0.1	-0.1
Net foreign borrowing <i>from which:</i>							-0.1	0.2	0.1	0.9	1.2
Earmarked project financing							1.3	1.3	1.4	1.7	1.6
Eurobond							0.0	3.2	3.1	2.9	3.8
Budgetary support from IFIs							0.9	0.0	0.0	0.0	0.0
Repayments							-2.3	-4.3	-4.5	-3.7	-4.3
Other flows							0.0	0.0	0.0	0.0	0.0
<i>Optimistic from which:</i>							5.2	2.6	2.3	2.1	1.4
Net domestic borrowing							2.5	2.2	1.9	1.3	0.6
Change of liquidity stock in TSA							2.8	0.2	0.3	-0.1	-0.2
Net foreign borrowing <i>from which:</i>							-0.1	0.2	0.1	0.9	1.0
Earmarked project financing							1.3	1.3	1.4	1.5	1.5
Eurobond							0.0	3.0	2.9	2.7	3.4
Budgetary support from IFIs							0.9	0.0	0.0	0.0	0.0
Repayments							-2.3	-4.1	-4.2	-3.4	-3.9
Other flows							0.0	0.0	0.0	0.0	0.0
Primary balance											
<i>Baseline</i>	0.7	0.1	0.6	0.2	-4.7	-3.8	-2.7	0.0	0.3	0.5	1.1
<i>Pessimistic</i>							-2.5	0.5	0.5	0.7	0.8
<i>Optimistic</i>							-2.5	0.3	0.8	1.1	1.8
Current balance											
<i>Baseline</i>	2.2	2.4	3.2	2.6	-0.5	2.3	1.0	2.2	2.4	2.7	3.1
<i>Pessimistic</i>							0.5	1.5	1.2	1.4	1.4
<i>Optimistic</i>							1.2	2.5	2.8	3.2	3.8
Public debt											
<i>Baseline</i>	72.4	70.2	67.7	65.8	75.7	80.1	78.8	77.6	75.7	74.6	73.5
<i>Pessimistic</i>							79.5	78.8	78.1	77.6	77.0
<i>Optimistic</i>							78.2	76.4	73.7	71.3	68.5
Liquidity stock in Treasury Single Account (TSA)											
<i>Baseline</i>	0.7	1.4	3.0	1.0	0.5	4.7	1.7	1.5	1.0	1.4	2.3
<i>Pessimistic</i>							1.5	1.1	0.9	1.0	1.0
<i>Optimistic</i>							1.7	1.4	1.0	1.0	1.2
Public debt NET of liquidity stock in TSA											
<i>Baseline</i>	71.7	68.8	64.6	64.8	75.2	75.3	77.1	76.1	74.7	73.2	71.1
<i>Pessimistic</i>							78.0	77.7	77.2	76.6	76.0
<i>Optimistic</i>							76.5	74.9	72.7	70.3	67.3

Source: Ministry of Finance and Economy

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, addresses 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 vision of the PFM reform Strategy is to ensure 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. Ministry of Finance and Economy is working to introduce new standards to increase transparency in planning and spending of public funds. This Strategy will serve as the basis for a full commitment in improved fiscal administration, tax collection and reduced informality in economy. The strategy provides for an improved financial management system, in line with the legal framework and higher degree of control over public spending.

During 2020, MFE undertook a revision process to update the PFM Action Plan 2020-2022. The purpose of the revision was to take into account the negative impact of the earthquake and the COVID-19 pandemic on reaching the results. While changes have been incorporated into the Strategy log frame, the foundation remains the same with the overall and specific objectives being maintained. One of the most important changes, relates to expenditure composition, since it is one of the most influenced aspects of public finances, considering that re-prioritization and re-allocation of the budget spending have impacted the composition. The revision of the PFM AP 2020-2022, aims to support and to catch these changes in order to be aligned and to push the recent policy measures in country that support an inclusive economic growth. The Strategy log frame, change of indicators, target and their timelines were discussed by the PFM Steering Committee in January 2021 and after this, the revised action plan for 2020 – 2022 was approved.

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 includes a description of progress since 2014 along with lessons learned and priorities for 2019 – 2022. Key interventions are directly linked to outcomes and lead stakeholders are identified to ensure clear lines of accountability. Outputs are also clearly identified for each Component within the Specific Objectives. 2019-2022 strategy is reorganised in seven Specific Objectives:

Specific Objective 1: Sustainable and prudent fiscal framework; Through Specific Objective 1, the Government expects to have a prudent macroeconomic framework and fiscal policy in place with the objective to decrease the debt/GDP ratio over the medium term and to contain fiscal risks more effectively.

Specific Objective 2: Well-integrated and efficient planning; The Government recognises the need to further align key Government planning documents, such as the National Strategy for Development and Integration (NSDI-II), Sectorial Strategies and the Medium-Term Budget Programme (MTBP), which is the focus of Specific Objective 2. The annual budget and MTBP processes will continue to be enhanced and arrears will be minimized.

Specific Objective 3: Revenue mobilization; Increased revenue mobilisation is the focus of Specific Objective 3 with improved efficiency in collection of revenue resources encompassing both taxation and customs leading to greater stability in financing the budget at both national and Local Government (LG) levels. Informality will also be reduced.

Specific Objective 4: Efficient execution of the Budget; Specific Objectives 1-5, and Specific Objective 4 particularly, will include a focus on the full integration of the Financial Management Information System (FMIS) with other PFM systems, minimising manual operations and enabling more accuracy and timeliness

of reporting across all financial operations of the government. Its overall objective is to ensure efficient and effective use of approved budget resources. Interventions will seek to minimise arrears; reduce the costs of borrowing; and increasing the efficiency and transparency of the procurement system

Specific Objective 5: Transparency of Public Finances; this objective seeks enhanced accountability and transparency through better financial and non-financial performance reporting in line with international standards to improve coverage, quality and accessibility of information on public. Further efforts shall be made to engage the public in the budget process.

Specific Objective 6: Effective internal control; Financial discipline, control and transparency through improved Internal Audit (IA), Financial Management Control (FMC) and efficient Public Financial Inspection at central and LG levels is the focus of Specific Objective 6.

Specific Objective 7: Effective external oversight of the Public Finances; Finally, Specific Objective 7 seeks to increase the effective external oversight of public finances by enhancing the capacity of the Albanian Supreme Audit Institution (ALSAI) (formerly known as High State Control (HSC)). Financial and performance audits will increase, so their value and benefits to society can be maximized.

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.

MFE 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.

5. STRUCTURAL REFORM PRIORITIES IN 2022-2024

5.1. Update on the three main obstacles to competitiveness and inclusive growth and related reform measures

Key Challenge #1

Increasing innovation and skills of young people and adults to enhance employment

a. Analysis of main obstacles

Within this age group, the share of NEETs was highest among upper secondary graduates (28.9%), followed by university graduates (26.5%), while young people with no more than lower secondary education fared the best (24.4%). This is linked to the structure of enterprises that are not yet able to absorb the increased number of graduates with higher education coupled with currently low attraction of foreign direct investment into the country and limited or inexistent career guidance, whereby students make choices that may not always correspond to the demand in the labour market. The situation also highlights a potential need for additional actions to channel the increasingly skilled young workforce into entrepreneurship and the social economy. Albanian youth face significant challenges in matching their higher education qualifications with labour market demands and often accept temporary employment positions for which they are over-qualified as an alternative to scarce job positions in their respective areas of specialisation. This often leads to delays in starting an independent life and lack of motivation to start a family or to be more active in society and the long run leading to lower incomes, higher risk of poverty and discouragement to be active in the labour market for young people. There is a persistent need to focus on NEET youth from vulnerable groups¹².

Youth can be identified as a vulnerable group facing major challenges such as risk of poverty, high unemployment and long-term unemployment rates, high NEET rates. Some of the challenges are even greater for young women, others for young men. Economic participation of young people is still considerably below the EU average.

The COVID-19 pandemic imposed significant challenges in the development and implementation of VET policies, as well as in the delivery of vocational education and training programmes. At the onset of the pandemic, all secondary vocational education providers had to switch from classroom and work-based learning to online learning (using various online platforms, including Google classroom, Zoom, Skype, WhatsApp, etc.). To support the latter, a guide was developed and approved¹³. Course work and lectures for general subjects, such as mathematics, language, biology, chemistry, were broadcasted on National Albanian Radio Television Broadcasting Channel (RTSH). Progress in the implementation of online learning was monitored through questionnaires designed by NAVETQ, providing an overview of the implementation of this process and the difficulties encountered. In addition, in collaboration with the National Agency for Quality Assurance in Pre-university Education (NAQAPE), NAVETQ has coordinated training delivery for digital competencies and online teaching for VET teachers.

Whereas VET providers report that on average 87.6% of all students participated in some form of online learning¹⁴, issues related to access to internet, and digital devices/technologies and teacher capacities to use online platforms and develop digital content cannot be underscored. With schools closed and limited access to distant learning, the risk of permanent school-drop-out and learning-inequalities might have been exacerbated, particularly for those that have already been disadvantaged before the pandemic.

Initial training and continuous professional development of teachers / instructors continued during 2020 despite COVID-19. Specifically, 35 teachers / instructors were trained with the program Basics of Didactics in VET and 40 teachers and instructors with programs other training for continuing professional development. Webinars were also organized in the training of teachers / instructors for aspects of online learning and assessment of students in the context of Covid-19. Nonetheless, continued professional development of teachers and instructors, as well as the digitalization of the VET system overall require a stronger impetus. Meanwhile, with the support of GIZ, this program is being improved by fully integrating the digital

¹² There is no INSTAT data generated on young people from the Roma and Egyptian communities, young people with disabilities, and young people within the LGTB community.

¹³ <http://www.akaftp.gov.al/wp-content/uploads/2014/09/Udhezues-Mesimi-e-vleresimi-online-ne-AP-.pdf>.

¹⁴ <http://www.akaftp.gov.al/wp-content/uploads/2014/09/RAPORTI1.pdf>

competencies that should be possessed by all teachers in VET. The 24-day training programme is being integrated into the legal framework as a mandatory initial training for all new teachers recruited and selected in public VET providers.

The employability rate of graduates in vocational education, according to INSTAT¹⁵ data, shows that the employment rate of persons with secondary vocational education for 2018 is 68.7% compared to 54.9%, for those with general secondary education, emphasizing the increase of employment opportunities for those who have professional skills. Despite the clear advantage of hiring AP graduates, enrolment in public vocational high schools in the 2020-2021 academic year has dropped to 17,000 students (from 18,164 in 2019-2020). Whereas demographic trends are largely the cause for the decline, the promotion of VET needs increased focus, but more importantly infrastructural investments in the sector need to increase in line with the action plan for the optimization of VET providers, particularly in providers that face high demand (i.e. in the central region of Albania). Municipalities have not advanced much with their efforts to improve the VET infrastructure that is under their responsibility (i.e. VET schools' dormitories).

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

According to preliminary results that we have because the registration process doesn't finished yet, in the current academic year 2021-2022 there is an increase in the number of students from rural areas and marginalized groups. More specifically, the participation of Roma and Egyptians reached 602 students and trainees (compared to 592 in the previous year), while the participation of people with disabilities increased from 143 to 181. Over 50% of students are from rural areas. Despite the nominal increases, they do not represent a significant improvement in outreach.

An additional step towards quality assurance is self-assessment, a process that now takes place annually in all VET providers and serves as a good basis for further improvements at the provider level. In the frame of internal quality assurance of VET providers, NAVETQ and MFE, in collaboration with UNDP have improved the Self-Assessment Guideline and organized four regional meetings with directors and self-assessment teams of public VET providers to discuss the implementation of the self-assessment, and to develop solutions to improve the process. The coaching and consultation process was interrupted by COVID-19 outbreak in early March 2020, causing a delay in the finalization of the self-assessment process and reports. Nonetheless, all public VET providers finalized the self-assessment reports on one to two quality areas by September 2020. The self-assessment reports and results were utilized to develop strategic plans (3 providers) and annual plans (10 providers). In addition, NAVETQ, with the support of OEAD, developed a manual on gender relevant elements in the process of self-assessment

In 2020, NAVETQ in collaboration with UNDP international expertise, designed the accreditation model for VET providers, which includes roles and responsibilities of institutions for the accreditation, standards and criteria, accreditation procedures, as well as a road map for to support the accreditation process roll-out. The proposed model was thoroughly consulted internally within NAVETQ, as well as with MFE, NAES, pre-university institutions, social partners, and public and non-public VET providers. The model and results from the consultations are supporting the development of the legal framework for the implementation of the accreditation. The accreditation model complements the self-assessment process, already introduced among all public VET providers. The proposed accreditation process is undertaken at two levels – national level and VET provider level. Main institutions involved at the national level are NAVETQ and MFE.

The adoption of the work-based learning regulation was an important step towards increasing private sector participation in VET and streamlining WBL practices among VET providers. The development of professional practices in the workplace has increased, the modules of internships envisaged to be developed in the

¹⁵ Vjetari statistikor 2019, INSTAT

workplace are developed 100%, but the quality of their development remains to be monitored. Setting up sectorial skills committees has been identified as a priority in the NESS; however, the first sector skills committee has yet to be established. Following the approval of the DCM "On the manner of functioning and the criteria for selection of members of sectorial committees and the manner of their remuneration", the terms of reference for the development of methodology for selection and definition of the sector have been elaborated.

b. Reform measures

Reform measure 01: Increasing the quality and access to VET

1. Description of measure

The National Employment and Skills Strategy 2019 - 2022 is the main policy document that guides the implementation of actions related to employment and skills development in the country. The objectives (Increase the quality of education outcomes, the development of qualifications, the attractiveness and relevance of the vocational education system and the prediction of skills to correct discrepancies and improve skills recognition) will be achieved through several activities related to the modernization of VET involvement, aiming at the development of the labour market.

Provision of quality vocational education and training for young people and adults are the overall strategic priorities of VET. Lack of capacity in infrastructure in some regions (Tirana, Durrës, Elbasan) and their non-rational use in some other regions (Korça, Berat) make necessary the immediate implementation of the plan for optimization of public providers of education and vocational training.

The positive experience of collaborating with the business community should extend to all areas offered by vocational schools. Do not be limited to hotels-tourism, vehicle services, etc.

Although, as mentioned above, as a result of the pandemic, the promotion of VET was not carried out in the best conditions, nevertheless in cooperation with vocational schools we had a good start to the school year 2021-2022 in terms of enrolment in the first years (over 4,500 students were enrolled).

The adoption of bylaws pursuant to the VET law should have been completed, however the latest acts have already been drafted, submitted to the e-acts system and are being coordinated with other institutions so that they can be approved within 2021 by of the Council of Ministers.

a. Activities planned in 2022 (MFE, NAES, NAVETQ)

- a. Complete the legal framework to ensure financial autonomy, income generation for VET providers. Revise the budget allocation method. Develop an instrument to assess the programme- specific cost implications in close consultation with VET providers.
- b. Finalize the process of referencing the Albanian Qualification Framework to that the European Qualification Framework.
- c. Refine the process of translating Occupational and Qualification Standards into Assessment Standards with the assistance of sector specialists and subject-matter experts from the private sector to ensure that the level examinations are suitable for verifying a candidate's occupational competences as defined by the industry.
- d. Roll-out, building the capacities of the involved stakeholders and consolidate the implementation of the Accreditation system.
- e. Develop the competencies of 170 VET teachers and supporting staff as well as teacher trainers.
- f. Institutionalization of the National Vocational Education and Training Council.
- g. Establishment of Second sectorial committee.
- h. Commencement of work on drafting a new Strategy in the field of employment and professional skills.
- i. Continuation of work for the establishment of sectorial committees.

b. Activities planned in 2023 (MFE, NAES, NAVETQ)

- a. Continue with the implementation of infrastructure and institutional development plans.
- b. Develop the competencies of 200 VET teachers and supporting staff as well as teacher trainers.
- c. Continuation of work for the establishment of sectorial committees.
- d. Regular meeting of the National Vocational Education and Training Council.

c. Activities planned in 2024 (MFE, NAES, NAVETQ)

- a. Develop the competencies of 200 VET teachers and supporting staff as well as teacher trainers.
- b. Continuation of work for the establishment of sectorial committees.

c. Regular meeting of the National Vocational Education and Training Council.

2. Results indicators

Indicator	Baseline (year) (2022)	Intermediate target (year) (2023)	Target (year) (2024)
% of graduates now in employment			
Number of teachers trained in lifelong training	170	200	200
Number of enrolments in the VE and % of the students attending the general upper secondary education	17.5%	18%	18.2%
% of female students attending VE schools	16.7%	17%	17.3%

3. Expected impact on competitiveness

The reform seeks to equip young people 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 mid-term budget 2022-2024, is in the approval process.

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.

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.
Reluctance of teachers to participate in continuous training.	Low	Information in VET providers about the importance of continuing training. Implementation of promotional measures for rewarding qualifications on the salary
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 specific regional assessment for skills lacking in labour market.	Medium	Study on the missing skills in the regional labour market
Lack of high technology equipment	Medium	Identification, planning of needs and costs for equipping VET providers for

Reform measure 02: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services

1. Description of measure

The National Employment and Skills Strategy (NESS) 2019-2022, the strategy and its related action plan is supported by MTBP, as well as the donor projects. The main objective of the National Employment and Skills Strategy 2019 - 2022 and its action plan is to identify and design the appropriate incentives policies in the country for employment and vocational training of the workforce in order to create quality jobs and opportunities for employment and skills throughout the life cycle. The action plan focuses on enhancing decent work opportunities through efficient labour market policies, providing quality youth and adult education and training, fostering inclusion and social cohesion, and strengthening the market job and qualifications system.

The 8 new and revised Employment Promotion Programs including the ones for COVID – 19 situation, in order to achieve a better response to the needs of unemployed jobseekers, particularly the most vulnerable and harmonize the interactions and interventions of NAES, State Social Service and local authorities are in implementation.

Covid-19 exposed further the added vulnerability that informal workers face in the labour market. Support to the reintegration in the labour market of formerly informal workers and their formalization will continue, as will inter institutional collaboration between the General Directorate of Taxation, State Labour Inspectorate, and NAES. In addition, labour market policies and regulations will need to be analysed in terms of the impact that they can have in reducing informal employment.

The finalisation of the information system of NAES and the development of individual employability plans are in place. The operationalization of NAES functions and capacity support to NAES staff at all levels has continued.

Promoting youth employment is one of the priorities of the Albanian government and one of the programs that is going to be implemented is the Youth Guarantee Program. The focus of the program will be NEET as the unemployment rate and inactivity for this category is very high. The work for setting up the multi stakeholder group for drafting the YG plan is ongoing.

NAES has built a sustainable plan to address the vulnerable categories that are in its database. During the planning of annual indicators related to employment, employment promotion programs and vocational training courses in each of the indicators, objectives have been set for the inclusion of specific categories in these services. This ensures the planned treatment of vulnerable categories. The new employment system has also enabled integration with other systems such as economic assistance and people with disabilities, which ensures data interaction and facilitation of procedures.

a. Activities planned in 2022

- a. The implementation of employment promotion programs including on COVID-19 dedicated 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% of registered unemployed.
- b. Drafting Youth guarantee program (DCM) targeting youth unemployment especially NEET.
- c. Implementation of the agreements signed with municipalities in uncovered areas.
- d. Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance.
- e. Development and publication of information and quality analysis of the labour market and improvement of public relations.
- f. Prepare all the procedures for implementation of youth guarantee program and pilot it for.
- g. Conduct an assessment to measure the impact of the implemented Employment Promotion Programmes (2020-2021).

b. Activities planned in 2023

- a. Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance.
- b. Implementation of Youth Guarantee Program.

- c. 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% of the registered unemployed jobseekers.

c. Activities planned in 2024

- a. Improve the quality and effectiveness of institutions and services of the labour market, through increased staff performance.
- b. Implementation of youth guarantee program.
- c. 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%.
- d. Evaluation of the impact of employment promotion programs.

2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2021)	Intermediate target (2022)	Target (2023)
Increase employment of jobseekers through job mediation services	28%	38%	43%	48%
Increase participation of unemployed job seekers in Employment promotion programs	6,4%	6,7%	7,0%	7.3%
Increased training for unemployed jobseekers	50%	60%	65%	70%

Indicator	Baseline (2018)	2019	2020	(2021)	Target (2022)
Increased participation in vocational training courses for unemployed jobseekers	(8,770/16,574) 53%	(8,818/15,143) 58%	(4386/7427) 59% (Jan- Dec 2020)	(3984/6839) 58% (Jan-Aug)	70%
Increase employment of jobseekers through job mediation services	(20,808) 28%	(20,880) 29.4%	(8,830) 10.6% (Jan- Dec 2020)	(5368) 5.6% (Jan- Aug)	48%
Increase participation of unemployed job seekers in Employment promotion programs	(4,808) 6,4%	(5,338) 7.5%	(4,141) 5% (Jan- Dec 2020)	(3236) 3.3% (Jan- Jun)	7.30%
Average number of registered unemployed jobseekers (Stock)	74,686	70,930	82,921 (Jan- Dec 2020)	(95,806) Jan- Apr)	

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

	2020	2021	2022	2023	2024
	Forecast in EUR	Forecast EUR	Forecast EUR		
Mediations carried out by Employment Offices	2,179,934	2,509,090	3,176,811	3,176,811	
Implementation of employment promotion programs		4,275,090	4,508,197	4,508,197	
Training in VTC	1,945,516	2,766,352	3,091,221	3,091,221	
Unemployment Benefits/transfer	7,267,213	8,085,131	7,377,049	7,377,049	

Investment	285,393	532,787	663,934	663,934	
Other administrative expenses	415,574	684,008	1,105,738	1,105,738	
Total (w/ administrative expenses)	12,680,148	18,852,459	19,922,951	19,922,951	
Total (w/o administrative expenses)	12,394,754	18,319,672	19,259,016	19,259,016	

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).

6. Expected impact on the environment and climate change

The measure is neutral in terms of environmental impact.

7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
COVID-19 limits the ability of NAES to implement EPPs and other employment / training services.	Low	Continue with the simplification of application procedures to enable great participation of the private sector;
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.

Reform measure 03: Improving institutional, financial and human capacities for research and innovation

1. Description of measure

The reform measure, is in line with the Strategy for Science, Technology and Innovation 2017-2022 (SKSHTI), the National Plan for European Integration 2021- 23, "Chapter 25" Science and Scientific Research, and recommendations of the European Commission for Science and Scientific Research. Ministry of Education and Sport (MES) is currently working on drafting the second monitoring report of the strategy. Regarding the EU framework programs, the participation in Horizon 2021 has significantly improved and shows a good development for 2021. Starting from September 2021, National Agency for Scientific Research, Innovation and Technology (AKKSHI) with the EU Technical Assistance Project for EU Programs in Albania, has undertaken an informative tour in several Universities of Albania to get them acquainted with these programs, with a focus on Horizon Europe. During 2021, has been taken place the negotiations for the new Horizon Europe Agreement which has still to be officially signed.

AKKSHI and INSTAT in June 2020, signed a memorandum of cooperation, for the introduction in the official statistical program of a set of indicators in the field of research & development. The first data are expected to be published in March 2022.

Referring to Albania Report 2021 of European Commission Albania has some level of preparation in the area of science and research. Good progress was made over the reporting period, especially with the completion of the quantitative analysis phase of the Smart Specialisation Strategy (S3), in the further improved participation in Horizon 2020, in reaching out to the diaspora, and in academia business cooperation. A road map for the S3 process was drafted, in cooperation with the European Commission. As regards EU framework programmes, Albania participates in Horizon 2020 as an associated country. Its participation in Horizon 2020 has improved and shows a very good result for 2020, nonetheless its overall success rate continues to be low. The success rate of proposals with Albanian participation is 8.7 % (up from 7.8% since last year) compared to 12.1% Horizon 2020 success rate. The National Agency for Scientific Research and Innovation (NASRI) continued its efforts to raise awareness on Horizon funding opportunities. Increased measures should be implemented to raise the awareness on participation in Horizon Europe.

However, last year's recommendations have not been fully addressed and therefore remain valid. In the coming year, the country should in particular:

- increase investment in research, in line with its own commitments and European research area priorities;
- continue the development of the Smart Specialisation Strategy;
- ensure timely association to and participation in Horizon Europe.¹⁶
 - The aim of the measure is to develop the infrastructure of research and innovation, activate public and private financial resources that support scientific research and promote scientific researchers. Moreover, it aims to increase collaboration between researchers and business community that support job creation and the country's economic development. The measure includes legal initiatives that will be developed over the period 2022-2024; activities related to the improvement of research infrastructure; promotional activities for European scientific programs; investments to support research closely linked to the country's economic development; human capital promotion activities, etc. This measure is correlated to the Economic Criteria, to be competitive in EU, which requires a sufficient amount of human capital, education, research, innovation, and future developments in this field.
 - quantity and quality of physical capital and infrastructure.
 - changes in the sector and enterprise structure in the economy, including the role of SMEs.

a. Activities planned in 2022

- a. Continue development of Smart Specialization Strategy (S3) and ensure the start of its implementation. (MES and inter-institutional group).
- b. Increasing bilateral cooperation in the field of technology, scientific research and innovation between higher education institutions in Albania and foreign ones.
- c. The research infrastructure will continue to be supported based on performance monitoring. (MES and NASRI).
- d. Implementation of the platform of Albanian scholars including the diaspora and awareness about it. Prepare guidelines on how researchers in countries to cooperate with those in the diaspora.
- e. Evaluate the work of the H2020 NCP network and support them for participation in national / international meetings.
- f. Support participation in ERA Committees and envisage necessary legal changes to implement ERA priorities and principles (NACI and MES).
- g. Produce statistics and reliable data on science and technology, including the indicator on gross domestic expenditure on Research and Innovation (NASRI and Institute of Statistics)

b. Activities planned in 2023

- a. Adopting and starting implementation of Smart Specialization Strategy.
- b. Drafting and adopting of the new national strategy of technology, research and innovation;
- c. Drafting and adopting of the new law on scientific research and innovation
- d. Developing a clear methodology to establish funding for research and science
- e. Innovation projects will be supported and funded if they have in essence the collaboration between Science (Universities) and Business, promoting new models like hackathons and

¹⁶ European Commission, Albania Report 2021

triple-helix.

- f. Prepare the legal framework to support companies investing in research. (MES and MFE).
- g. Establishment of the first regional center of excellence in Albania. (MES and PMO).
- h. Increasing bilateral cooperation in the field of technology, scientific research and innovation between higher education institutions in Albania and foreign ones.

c. Activities planned in 2024

- a. The new legal framework of scientific research and innovation will be supplemented with new bylaws.
- b. Innovation projects will be supported and funded if they have in essence the collaboration between Science (Universities) and Business, promoting new models like hackathons and triple-helix.

2. Results indicators

Indicator	Baseline (2022)	Intermediate target (2022)	Target (2024)
Number of research and innovation projects funded	10 (R&D projects) 20 (Scientific Research Infrastructure projects)	15/25	20/30
% of research and innovation fund versus GDP (GERD)	0.1	0.15	0.2
Number of bilateral and multilateral agreements / projects	5+	10+	10+

3. Expected impact on competitiveness

Strengthening of institutional research capacities will contribute toward improving participation in Horizon Europe programmes and will strengthen links between academia, business and government in the mid to long term. Feeding business with research and innovation will lead to producing innovative products at these infrastructures and create added value through commercialization of these products.

Regarding to S3 concept, the underlying rationale behind is that by concentrating knowledge resources and linking them to a limited number of priority economic activities, countries and regions can become - and remain - competitive in the global economy. This type of specialization allows regions to take advantage of scale, scope and spill overs in knowledge production and use, which are important drivers of productivity. In short, Smart Specialization is about generating unique assets and capabilities based on the region's distinctive industry structures and knowledge bases.

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

Total budget of the research program in draft Midterm Planning Budget.

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

The positive impact on employment is reflected in the creation of a long-term sustainability for qualified personnel. Funds provided by MES through instruments "Infrastructure Improvement Projects"; "Bilateral projects" and "Research and development projects", among others, support job creation. The developments in innovations are expected to have a positive impact on a wide range of aspects of economic and social aspects and development.

The adoption of Smart Specialization aims to boost growth and jobs by enabling the country to identify and develop its own competitive advantages. Through its partnership and bottom-up approach, smart specialization brings together local authorities, academia, business circles and civil society, working for the implementation of long-term growth strategies supported by EU funds.

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

The measures is considered neutral in terms of impact on the environment. There are no foreseen negative impact on the environment; on the contrary, innovative projects have the potential to bring in positive results.

7. *Potential risks*

Challenges to implementation of the above-mentioned measures in the area of research and innovation include difficulties in inter-institutional coordination as well as budget constraints.

Risk	Probability (low, high)	Planned mitigating action
Budget constraints	Low	According to the midterm budget framework, the funds planned for national programs for R&D, scientific research infrastructure and bilateral/multilateral projects, will be increased for the upcoming three years.

Key Challenge #2

Increasing the coverage and adequacy of social protection and health insurance to reduce the share of the population at risk of poverty

a. Analysis of main obstacles

Albania's social protection system is dominated by both social insurance schemes (pensions, unemployment benefits) and non-contributory cash programmes (proxy-means tested social assistance/economic aid, disability transfers). Although it more than doubled since 2005, Albania's overall social protection spending remains low. Albania spent 9.4% of its GDP on social protection, which is the half of the EU-27 average of 18.6%. Most social protection spending is on pensions (82.4%), followed by non-contributory cash assistance programmes to people with disabilities and people at risk of poverty and by the baby bonus scheme.

In 2019 the at-risk of poverty rate was 23.0%, 0.4% lower compared with 2018. The at-risk-of-poverty or social exclusion indicator decreased by 2.8%. 46.2% of the population was at risk of poverty or social exclusion, which is more than EU-27 average of 21.6%.

Social transfers, such as old-age and family pensions, included in disposable household income, reduce the risk of poverty rate. When in the income level are not included all the social transfers, at risk of poverty in 2019 is estimated at 38.1% compared to 26.1 % that is estimated when in the income level are included social transfers only from old-age and family pensions.

The Economic Aid scheme (Ndihma Ekonomike) is the main cash transfer program for the poor in Albania, and it has been significantly improved over the past years. The NE still suffer from a number of issues: (i) The level of the benefit may not be adequate considering the needs of the population targeted by the program; (ii) There is no mechanism through which the level of the benefit to be regularly updated; (iii) The targeting formula may have lost part of its effectiveness, because of the fact that Albania has been moving towards using EU-SILC survey for computing poverty indicators, and the eligibility formula has been calculated based on Household Budget Survey; (iv) The coverage of the program may not be adequate when compared with the size of the population currently in need.

The government took temporary measures to increase the adequacy of social assistance benefits and extend income support during the pandemic. The budget amount of the scheme for 2021 was increased from ALL 4.6 billion to 7.1 billion and as a result, benefits doubled in the first six months of 2021. From these measures benefited on average 69,700 families.

The implementation of the social care services reform, was accompanied by making operational the Social Fund. The total fund disbursed for the local government by the Social Fund during 2020 and 2021 is respectively 1.2 ml Euro and 1.5 ml Euro. In 2020, only in 8 municipalities the social care services funded by Social Fund became operational.

The impact of this reform is expanding the map of services (during 2021, the 5 municipalities, for the first time (Kavaja, Kruja, Lezha, Berati, Gjirokastra), have provided at least three social protection services); increasing the number of beneficiaries (year 2020- 0.56% of the population from 0.35 % in 2019).

The UN Joint Programme “Leave No One behind” in cooperation with SSS has contributed at capacitating municipalities to plan, budget, provide and monitor rights-based local social care services as foreseen in the Social Protection Strategy and the Law on Social Care Services. The municipalities have strengthened their capacities in operationalizing social inclusion policies at local level by developing and costing social care plans which respond to the needs of vulnerable men and women. 60 municipalities have developed and already approved social care plans, so far.

The mid-term budget for 2021 to 2023 foresees that annual allocation will stagnate at EUR 1.61 million, despite an increase in the number of eligible municipalities and thus in the resources required.

Measures to promote social inclusion and equal opportunities for vulnerable groups focus on women, youth, Roma and Egyptian minorities, people with disabilities and older people. Empowerment and promoting of equal rights and non-discrimination constitute key for addressing disparities in living conditions. Tackling the problem of exclusion and discrimination in urban and rural areas needs to be addressed through wider coverage and access to service target the vulnerable population to support social cohesion. Albania has cooperated with UN for SDG mainstreaming and acceleration in policies and monitoring of social inclusion and SDG's. Policy document for Social inclusion and national action plans (NAPs) for children, Roma and Egyptians and persons with disabilities include a range of indicators.

Improvement of the outreach and coverage of social care services, such as childcare facilities, settings for persons with disabilities or the elderly, is a key component lacking in the social protection system and will help these categories increase labour market participation and alleviate poverty.

b. Reform measures

Reform measure 04: Increasing the coverage and adequacy of integrated social care system to reduce the share of the population at risk of poverty

1. Description of measure

The overall goal of this measure is to expand the coverage, inclusiveness, effectiveness, and better targeting people in need through social integrated services and through financial mechanisms: social fund and social enterprises.

Particular attention will be paid: i- to integrated health and social care services; ii- to empower the local government units to include appropriate social care services and mechanisms in their Social Policy Plans; iii- to continue the implementation of the deinstitutionalization national action plan; iv- to review of the existing minimum standards for 17 social care services and identify new functional and structural standards as appropriate; v- to design a methodology and define unit costs for social care services based on minimum structural standards and minimum functional standards; vi- to develop the methodology in regard of evaluation and allocation of the national Social Fund that takes account of measures for improving transparency and vertical and horizontal equity.

According to the assessment of the performance of the level of benefit of economic aid, a transparent mechanism for its regular review will be established

It has been established an inter-institutional coordination mechanism at the central level, with working teams at the regional and local level for the referral and employment of individuals and members of working age of families receiving social assistance. These structures will ensure the social reintegration, through the coordination and implementation of an exit program from the social assistance (economic aid) scheme. An “exit program” and its action plan is being approved with the aim of promoting integration into the social life of families through employment promotion programs, so that this scheme (economic aid) will not be used as a benefit mechanism that may lead to prolonged unemployment of the beneficiary families of economic aid and turn it into an active scheme.

The roadmap with steps and timeline for adjusting the benefits of economic aid and establishing a transparent mechanism for their regular annual review, in compliance with the condition of the EU Macro-Financial Assistance to Albania, has been already prepared.

The steps of the roadmap are committed to carry out until the end of 2024. The steps include the analysis of the performance of the economic aid benefit using the most recent HBS and EU-SILC data and establishing a mechanism to regularly update the level of the economic aid benefit.

The new law 57/2019 "On social assistance in the RA" removed the restriction on the cessation of the disability payment due to employment, guaranteeing that this benefit is not terminated in case of employment, but it serves to the persons with disabilities to be fully integrated into the social life.

It is approved the Strategy on Gender Equality and PoA and the National Action Plan on Disability 2021-2025, which has been approved by the Government with DCM Nr. 276, Date 12/05/2021.

Concrete interventions aim to:

- (i) establish a mechanism to revise the benefit amount of economic assistance.
- (ii) strengthen the governance of the social sector and administrative capacity among local governments, with particular regards to apply for support from the Social Fund and to plan, manage and deliver new social care services. Based on a new methodology in regard of evaluation and allocation of the national Social Fund social services in the territory must better respond to the needs of the vulnerable groups.
- (iii) support the people from disadvantaged groups through employment in social enterprises is the implementation of the legislation on social enterprises and sub-legal acts, as a means for reintegration of persons from vulnerable groups.¹⁷ From this measure has benefited the status of social enterprises 8 organizations, which in total are planned to be employed 80 persons from vulnerable groups.
- (iv) support to continue to access social support services even in the new circumstances created by COVID 19 to vulnerable women, men, girls, boys and children who risk being left behind.

a. Activities planned in 2022

- a. Establish the mechanism for updating regularly of the level of benefit of NE.
- b. Implement the bio-psycho-social evaluation scheme to support with persons with disabilities with combined cash support and social care in four regions.
- c. Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises. Financing of 5 social enterprises.
- d. Improve and expand the delivery of integrated community-based social services by local government units to all categories in need within the frame of Social Fund.
- e. Assessment of all public residential care institutions and develop their transformation plan.
- f. Establish child and friendly support hub in Tirana, Shkodra, and Durrës, based on piloted already in Korça and Vlora.

b. Activities planned in 2023

- a. Adjust the benefits of economic aid.
- b. 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.
- c. Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises. Financing of social enterprises.
- d. Improve delivery of community-based social services by local government units to all categories in need within the framework of Social Fund.
- e. Advanced implementation of the residential care services transformation plan toward the deinstitutionalization for development centers.
- f. Implement National Action Plans for social inclusion and poverty reduction through enhanced policy-making and indicators.

c. Activities planned in 2024

- a. 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.
- b. Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises. Financing of

¹⁷ Social enterprises legislation foresees that 30% of the staff are from specific categories.

social enterprises.

- c. Improve delivery of community-based social services by local government units to all categories in need within the frame of Social Fund.
- d. Finalisation of transformation of all the residential care services, at the same time the advancing transformation of non-public residential institutions.
- e. Implement National Action Plans for social inclusion and poverty reduction through enhanced policy-making and indicators.

2. Results indicators

Indicator	Baseline (2021)	Intermediate target (2023)	Target (2024)
% of population at risk of poverty and social exclusion	46.2% (2019)	45%	44%
Number of new social services for disadvantaged groups provided through local government units using resources from social fund	19	30 (cumulative)	45 (cumulative)
Number of vulnerable persons employed by social enterprises	N/A	100 (cumulative)	150 (cumulative)

3. Estimated cost of the activities and the source of financing

Social Protection & Inclusion Budget for 2022 is 209,584,879 EUR¹⁸

Social Protection & Inclusion Budget for 2023 is 216,679,174 EUR

Social Protection & Inclusion Budget for 2024 is 216,499,794 EUR

From this budget for the year 2022 the fund for the payment of economic aid and disability is estimated 177,920,686 EUR.

The fund for Social Fund is estimated 1.6 million EUR and for social enterprises 1 million EUR.

From IPA (IPA 2019/04 I-203/Albania/ EU for Social Inclusion is estimated a fund for Social Fund 1 million Euro for 2022 and 1.5 million for 2023.

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

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 and health services.

5. Expected impact on the environment and climate change

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

6. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Lack and low skilled capacities at the local level for the drafting of detailed social plans.	low	Cooperation with local actors to build capacities for social plans.
The increase of the poverty level beyond the forecast made due to COVID-19 crises.	high	Revising the social assistance benefits

Reform measure 05: Increasing access to health care

1. Description of measure

¹⁸ /www.bankofalbania.org/Tregjet/Kursi_zyrtar_i_kembimit/

Health for all remains a main goal. Increasing access to health care and providing a safe and equal health care in all the tiers of the public system and not only remains one of the main objectives of the government of Albania. This objective is embedded in all the policy papers that are in implementation process, drafting and budgeting process of the Ministry of Health and Social Protection from 2013 and onwards.

There has been a progressive increase of the budget dedicated for health. In 2021 the budget was 56.5 billion ALL or 9.61% of state budget and 3.35% of the GDP (compared to 2020 there is an increase of 0.12% of the GDP). The budget for 2021 is 10.6% higher than the health budget for year 2020 and 57.71% increase compared to 2013. Health expenditures per capita have increased from 12,295 ALL in 2013 to 19,820 in 2021 with an increase of 61.2%.

Health care contributions in 2021 amount to 14.084 million ALL and the projection for the next three years foresees a progressive yearly increase of health contributions at an average of 7%. The projection is that in 2022 health contributions will be 15.096 million ALL, in 2023 health contributions will be 15.151 million ALL and in 2024 health contributions will be in the amount of 17,172 million ALL or an increase of 21.78% compared to 2021.

Health care in Albania is now in the process of ongoing transformation and modernization. Our objective is to provide equal, accessible and sustainable health provision regardless of the social and economic status, age, starting from birth to elderly.

From 2017 the government of Albania has developed a National Program for the Reconstruction of all health care facilities. Until 2021 through this program 300 primary health care facilities were not only transformed in regards to civil works but also equipped with new medical equipment's and devices. The program will continue to be implemented also during the third mandate of the government with the aim of transforming all primary health care facilities in the country within 2025.

a. Activities planned in 2022-2024

- 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 and revising the national legislation on drugs and pharmaceutical services.
- 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.
- Revising of hospital law and costing methodology of health care services aiming to improve financing mechanism of health care institutions.
- Continuing financing of preventive screening programs and increasing by up to 10% the number of beneficiaries.
- Dedicated policies for our health care professionals foresees dual practice and wage classification as per performance indicators.
- The establishment of the National Health Service, as single payer and gradual transformation of hospital financing from historical budget to health service packages.
- National Health Strategy 2021 – 2025 and budgeted Action Plan.

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Number of citizens that benefit 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 foreseen actions have several dimensions of impact, such as enforcing and improving public health care provision of services, increase accessibility, diversify service provision by introducing new innovative models of health care (housing services, voluntary and community based) with a special emphasis on delivering high-quality, accessible and affordable care.

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

- Health Budget for 2022 is 56.7 billion ALL with an increase of 6.9% compared to the budget of 2021 or 3.3% of the GDP and 9.5% of the State Budget.
- Health Budget for 2023 is 57.3 billion ALL with an increase of 0.95% compared to 2022 or 3.1% of the GDP and 10% of the State Budget.
- Health Budget for 2024 is 59.3 billion ALL with an increase of 3.5% compared to the budget of 2023 or 2.8% of the GDP and 9.88% of the State Budget.

For 2024 total health expenditures will be 11.8% higher than in 2021.

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

Health reforms target the elderly, women, children, the poor and people with disabilities. The reform measure is expected to improve the wellbeing of citizens by providing free health care services aiming to reach Universal Health Coverage.

6. Expected impact on the environment and climate change

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

7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Constraints due to COVID – 19 pandemic	Medium	A careful planning on the central level
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

Key Challenge #3

Improve the business environment and investment climate by increasing government support and tackling informality

a. *Analysis of main obstacles*

Albania's private sector mainly consists of micro, small, and medium enterprises (MSMEs), which are burdened by informality. Albania rolled out a country-wide campaign to combat the informal economy in 2016 and the numbers of registered tax payers and social contributors increased significantly. Since 2019, the government has implemented a risk-based approach to focus its action on the informal economy in a more efficient way and to shift the focus away from mobilising additional budget revenue by stepping up the number of checks and inspections.

The entire information process through invoicing now is electronic and this will exert an even greater pressure towards access to real financial statements and not fiscal ones that today we consider to be far from reality.

The first phase of the implementation of this reform, which consists of cashless transactions between taxpayers and public entities (B2G) started on 1 January 2021; the second phase of cashless transactions between taxpayers (B2B) started on 1 July 2021, while on 1 September 2021, the last phase for taxpayer-consumer (B2C) cash transactions was launched. The available data is as follows:

1. About 63,828 fiscalised active taxpayers and over 126 million fiscalised invoices as of January 1, 2021.

2. 93,851 taxpayers or 77.2% of the total active taxpayers are equipped with fiscalization certificates.
3. 22,260 taxpayers or 88% of active large taxpayers (LT) have been equipped with fiscalisation certificates. 19,243 active large taxpayers or 76% of the total LT population have issued fiscalised invoices.
4. 69,470 taxpayers or 76.3% of active small business (SB) taxpayers have been equipped with fiscalisation certificates. 44,095 or 48% of the total SB population have issued fiscalised invoices.

The tax administration will be committed in the fight against informality to ensure the correct implementation of tax procedures. Non-compliant taxpayers will be highlighted by the risk analysis and will also include other verification and audit structures to ensure that tax obligations are met, strengthen the compliant taxpayers and public' trust towards the tax administration.

For 2022, the Compliance Plan will be adopted, with focus on sectors of particular importance in economy, such as Tourism, Café-Restaurants, Construction and wages.

Also, for 2022 the focus will be on identification and analysis of taxpayers with deviant behaviour, trying to benefit from tax thresholds (phoenix scheme, under-declaring of sales, failure to declare purchases, etc.)

In 2021, in the context of the fight against informality, the tax administration drafted and implemented:

1. **Tourism Sectorial Plan 2021**, with these results:
 - i. For the same taxpayers who were active in 2019, during the 2021 touristic season, an increase by 15% of due VAT.
 - ii. Registration for VAT liability for 175 taxpayers.
 - iii. An 8% increase in the number of employees for active taxpayers in both periods 2021-2020.
 - iv. An increase of about 16% in the number of declared employees for the targeted active population (for all taxpayers).

2. **Sectorial Reconstruction Plan**

Taking advantage of the incentives launched by the Albanian government to enable the reconstruction process from the consequences of the 2019 earthquake, the Tax Administration implemented a project of risk management for taxpayers involved in the Reconstruction process, equipped with the Authorization "For VAT exemption for Reconstruction taxpayers". The aim of this Sectorial Plan raising taxpayers' awareness on: 1. Real and timely declaration of their tax obligations 2. Non-abuse with the received authorization and the way the VAT exemption is implemented for their reconstruction activities.

The treatment consists of sending personalized letters to these taxpayers that have not resulted in broken rules, from a fiscal point of view, based on the risk analysis. For the non-compliant taxpayers were planned 125 fiscal visits, 45 tax audit on taxpayers' premises, as well as 324 desk audits for taxpayers not equipped with the "VAT exemption for Reconstruction" authorization, but have made VAT-free sales to taxpayers equipped with the "VAT exemption for Reconstruction" authorization. 45% of desk audits have been carried out, which resulted in due VAT amount of ALL 53,735,561.

This process continues and during 2022 we will reflect a summary of findings from fiscal visits and audits in taxpayers' premises to complete this sectorial plan.

The COVID-19 pandemic has had a significant impact on the Albanian economy over the past year. Throughout 2020 the global economy faced the continuing spread of the Covid-19 pandemic and the austerity measures taken by public authorities to curb the spread. In Albania, the government imposed restrictions on free movement since March, to prevent further spread of the pandemic in the country. Albania is particularly exposed to the economic contraction from the pandemic because it is strongly supported by the tourism sector and because of its intensive relations with some EU economies severely affected by the pandemic. According to the latest estimates by INSTAT, real GDP shrank by 2.34 percent in annual terms in the first quarter, followed by a deeper decline of -10.20 percent in the second quarter and the latest statistics published by INSTAT, in the third quarter, the decline has softened to -3.47 percent compared to the respective quarters of 2019. While in nine-month terms for 2020, the economy has declined by 5.52 percent compared to the same period in 2019. Exports of goods and services, according to INSTAT estimates, during the first nine months

of the year 2020 have shrunk drastically by about 29.6 percent. But in the meantime, given that even the contraction of Imports of goods and services has also been extremely strong, as well as reflecting the weight of high that imports have in our economy, has resulted in an increase in net foreign demand (contraction of the deficit between exports and imports) compared to a year ago by about 6.6 percent, consequently giving a positive contribution to GDP growth of about 1.2 percentage points. In terms of aggregate supply, the two sectors which have increased over the period nine months of 2020, compared to the same period a year ago are: "Agriculture" with growth of 1.8 percent and a positive contribution of 0.3 percentage points, as well as "Asset activities of real estate" with an increase of 5.9 percent and a positive contribution of 0.4 percentage points. Other sectors have decreased in the following order, where: "Wholesale and retail trade" has decreased by 15 percent, and negative contribution of 2.4 percentage points; "Scientific and professional activities" with a decrease of 14.4 percentage and contribution of -0.9; "Arts, entertainment and leisure" with a decrease of 10.8 percent and contribution of -0.2; "Industry" with a decrease of 5.4 percent and a contribution of -0.7 percentage points; etc. Labour market dynamics have generally reflected that of economic activity. While the year 2019 resulted in a further reduction of the unemployment rate with an average level for all year of 12 percent (for the 15-64 age group), the first nine months of 2020 recorded a deterioration of significant of this indicator in the first half of the year and then a recovery in the quarter of third. Referring to the quarterly labour force survey by INSTAT, unemployment rate (for age group 15-64 years old) recorded the level of 11.9 percent in the first quarter, 12.5 percent in the second and fell again at 12.1 percent in Q3-2020. The average unemployment rate for the first nine months of 2020 was 12.2 percent, standing at almost the same level of 12.1 percent in the first nine months of 2019. Meanwhile, for the age group 15 and over, the unemployment rate during the third quarter of 2020 recorded the level of 11.6 percent, with an increase of only 0.2 percentage points from the third quarter of 2019.

Many of the structural challenges described above have played a role in either amplifying the impact on the COVID-19 epidemic or limiting the scope of the policy responses to lessen its impact. In June 2021, the Albanian Investment Council launched the results of the survey on "Impact Assessment of Covid-19 on Business Activity in Albania". This survey is based on the first survey conducted by the Secretariat during April 2020 and aims to collect data for the period of 12 months (April 2020 -April 2021). The survey "Assessment of the impact of the COVID-19 pandemic on business in Albania", an initiative of the Secretariat of the Investment Council and the Ministry of Finance and Economy, was undertaken in April-May 2020 with the aim of gathering evidence on the effects of the COVID-19 pandemic on its business and activity.

According to the survey:

- Companies have continued to use online services, mainly government services and to a lesser extent the online services of financial institutions.
- Companies that have stated that they have used the online services, in 86% of them state that they will continue to use them in the future.
- 86% of interviewed companies at the beginning of the pandemic stated that they did not have an emergency strategy. Today, a year later 52% of companies declare that they will adopt an emergency plan, Agriculture, Trade and Tourism are more predisposed.
- 60% of companies over 14 mln ALL estimate that they will adopt emergency plans, while only 47% of companies up to 5 mln ALL confirm this.
- The pandemic seems to have accelerated the need for companies to focus on Innovation, 57% of respondents say they changed their investment plans towards Innovation, mainly new technologies and risk management. Agriculture is the sector with the highest desire to orient towards Innovation.
- Agriculture will invest more in strengthening trade channels, risk management and new technologies. Tourism in risk management and vocational training.
- Despite the size, the declaring companies have changed their investment plans towards Innovation, mainly risk management and professional training.

b. Reform measures

Reform measure 06: Strengthening the fight against informality

1. Description of measure

The main initiatives taken by the Tax Administration against informality in 2021 were based on clear principles and objectives based on intelligence (Risk).

The first phase of the implementation of this reform, which consists of cashless transactions between taxpayers and public entities (B2G) started on 1 January 2021; the second phase of cashless transactions between taxpayers (B2B) started on 1 July 2021, while on 1 September 2021, the last phase for taxpayer-consumer (B2C) cash transactions was launched.

The available data is as follows:

- About 63,828 fiscalised active taxpayers and over 126 million fiscalised invoices as of January 1, 2021.
- 93,851 taxpayers or 77.2% of the total active taxpayers are equipped with fiscalization certificates.
- 22,260 taxpayers or 88% of active large taxpayers (LT) have been equipped with fiscalisation certificates. 19,243 active large taxpayers or 76% of the total LT population have issued fiscalised invoices.
- 69,470 taxpayers or 76.3% of active small business (SB) taxpayers have been equipped with fiscalisation certificates. 44,095 or 48% of the total SB population have issued fiscalised invoices.

In the framework of the fight against informality, the tax administration designed and implemented the following actions:

- Tourism risk plan 2021
- Risk rules for monitoring taxpayers in the framework of changing the VAT threshold
- Reconstruction sectorial plan

The main results achieved were:

Tourism Sectorial Plan 2021:

1. Increase by 8% of Turnover during the tourism season 2021 compared to 2019 for the same period for active targeted taxpayers.
2. 4% increase in VAT payment by identifying and encouraging taxpayers that result in non-declaration or late payment.
3. Reduction by 25% of the number of taxpayers (TPs) declaring in the payroll only 1 employee.
4. Reduction by 15% of the number of employees with minimum wage or less.

Reconstruction Sectorial Plan

Risky taxpayers (TPs) were identified:

1. Large sales exempt from VAT.
2. TPs with the highest percentage of employees within the minimum wage.
3. TPs with a decrease in the VAT payment coefficient.
4. TPs which result with 1 - 3 employees.
5. TPs who in March 2020 resulted in a decrease in the number of employees.
6. TPs resulting with losses during 2020.

Based on these risk criteria, the form of risk treatment for the identified taxpayers was: full tax audit, desk audit, fiscal visits, monitoring, contact through letters and phone calls.

During the following period, the attention of the Tax Administration will be focused on the continuation of tackling the informality in the labour market and on drafting sectorial plans for the electricity and hydrocarbons' sector, as well as dealing with any identified non-compliant behaviour for different sectors, tax types, geographical location or taxpayers' size.

The reform envisaged for implementation during the period 2022-2024 will contribute to further reducing informality and enabling better quality services in the tax sector.

a. Activities planned in 2022-2024

- a. Automation of the VAT refund procedures, resulting in reducing VAT arrears to zero in 2022.
- b. New and improved risk criteria for identifying non-compliant taxpayers (taxpayers with increased revenue, but decreased due VAT; taxpayers not declaring expenses for electricity bills; taxpayers with under-declared wages for their employees – identified by comparing several years' data).
- c. Tackling tax evasion, tax fraud and informality, by making use of real-time monitoring of financial transactions between taxpayers, under the newly implemented fiscalisation system (invoicing and monitoring system of the trading activities of taxpayers by the Albanian tax authorities). It will bring

more reported cash transactions and it will reduce hidden cashless transactions, with better control of the fiscal system. It will also help efficiency in the fiscal reporting, by gathering more data from the taxpayers and pre-filling the VAT returns with these data.

- d. Detecting undeclared global income from taxpayers and individuals, through the first Automatic Exchange of Information on Financial Accounts in 2021 and onward, under the OECD's Common Reporting Standard.
- e. Integrating and making use of data from third parties in the tax administration's Data Warehouse, {utilities' national authorities (water, electricity), vehicles registration, municipalities, etc.}. Taking into consideration the VAT gap as well as data inconsistencies, data collection and their good administration, building a Data Warehouse (as one of IMF's recommendations) with centralized data, managed by only one source, becomes a big step forward in terms of fight against informality.
- f. Building the Register of Taxpayers' Assets (tangible & intangible), with the aim of a real assessment of taxpayer's assets, by building a system to verify and track taxpayers' income, full control of payments made on property taxes. This process will go through 3 phases: a. Creating an Asset Register with relevant attributes; b. Exchange of data with the web-service; c. Data Analysis with BI Reports.
- g. Design and implement a compliance program for wealthier individuals.
- h. Strengthen the system and use data in the decision-making process regarding wealthy individuals.
- i. Use of integrated approach for the implementation of wealthy individuals 'compliance strategy.
- j. Implementation of the tourism sector plan.
- k. Analysis and implementation of Risk rules for monitoring taxpayers in the framework of changing the VAT threshold to 10 million ALL.
- l. Implementation of the informality sector plan in the labour market in its 4 components.

2. *Results indicators*

Indicator	Baseline (2021)	Intermediate target (2023)	Target (2024)
Level of completion – building a database of high wealth individuals, based on internal/ third party data.	100 individuals	200 individuals	350 individuals
Level of completion: measuring the tax gap, risk mapping and defining addressing strategies for wealthier individuals	80%	90%	100%

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)	Target (2024)
Increase (by 4% every year) of due VAT in the tourism sector.	570.020 mln ALL	4%	4%	4%
Reducing the undeclared jobs and increase (by 1% every year) of declared employees	701.739 employees	1%	1%	1%
Lowering (by 3 % every year) the number of under-declared wages (at minimum threshold or less) (338.877 such wages in 2021).	338.877 salaries	3%	3%	3%

Indicator	Baseline (2021)	Intermediate target (2022)	Target (2023)
Level of completion - Building the Data Warehouse and populating it with internal and third parties' data.	50%	80%	100%
Level of completion - Building the Taxpayers' Assets Register	20%	50%	100%

3. *Expected impact on competitiveness*

Strengthening the fight against informality in economy will create a better climate of fair taxation and will increase the taxpayers' trust toward tax administration. It would also reduce unfair competition between formal businesses and informal businesses, it would increase revenue and thus indirectly, the funds available for infrastructure investment.

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

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 competitiveness and will also allow decreasing the cost of revenue collection. By increasing the number of declared employees and the number of wages declared for their real amount, this reform measure will indirectly contribute to job creation, fair taxation and better social security for employees. This reform measure could have a positive impact on gender equality, it would increase formal employment, it would increase revenue and thus funds available for infrastructure investment and for health cover.

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

There is no expected impact on the environment and climate change from the proposed reform measure.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Prolongation of activities	Low	Regular monitoring of the implementation of the activities

Reform measure 07: Developing a legal framework to support innovative start-ups1. *Description of measure*

In recent years, the role of start-ups has steadily gained importance as a driving force for economic and social development towards a knowledge-based society. The success of start-up companies and their potential to scale-up depends on a variety of factors.

The Albanian ecosystem has been supported by the EU project "EU for Innovation". The main goal of this project is to improve the start-up ecosystem and promote start-ups in Albania. This project is funded by IPA II 2014-2020 for the Competitiveness and Innovation sector in the amount of 6,600,000 euros, and with support from the German Government in the amount of 719,238 euros and the Swedish Government in the amount of 220,000 euros. The total budget of this project is 7,539,238 euros. The project ends in March 2022. The grant component "Challenge Fund" was 2.2 mln EUR coming from EU and 220.000 EUR from the Swedish Government. Beneficiaries have been 33 innovative start-ups for which contract has been awarded and ISO (Innovation Support Organizations).

A draft for a new start-up law was endorsed by an inter-ministerial working group at the Minister of State for Entrepreneurship. The draft Law "On support and development of start-ups" is submitted for approval to the Council of Ministers. It is intended to be approved within 2021.

The purpose of this draft law is to create a favourable regulatory and institutional framework for the creation and development of Start-ups, to promote research, implementation and use of new ideas, models, products and processes, which boosts the economy and the disruption that comes with it. This draft law will establish support measures, state bodies, criteria, rules and procedures that are implemented for the online self-declaration and support of Start-ups and the establishment of a favourable ecosystem for them in the Republic of Albania.

The Law has foreseen supporting Measures for Start-ups and the establishment of the Council of Start-ups. In the DCM no. 466/2021 "The Strategy on Business and Investment Development and action plan 2021-2027", the intervention area "SME development, entrepreneurship and innovation" recognizes the important contribution that SMEs and start-ups can make to a more innovation- and knowledge-driven economy. It also recognizes that the entrepreneurial and innovation ecosystem is still at a nascent stage and the "critical mass" allowing support organizations to become self-sustaining has not yet been reached.

The policy goal and objectives take into account that current conditions are challenging for SMEs and start-ups. Amongst others, this relates to access to finance and markets, the impact of the COVID-19 pandemic and challenges in the context of the green and digital transition.

There is a need to enhance the existing grant schemes for SMEs and to design new financial tools and instruments to improve access to finance. Furthermore, there is a need to scale up innovation and start-ups

dynamics and foster specialisation to reach this “critical mass” focusing on the most promising value chains. Against this background, an integrated and targeted approach that promotes smart specialisation is foreseen for this intervention area. Strengthening linkages between all actors and components of the ecosystem is considered a cross-cutting success factor.

a. Activities planned in 2022

- a. Adoption of the new draft law on start-ups.
- b. Drafting of the sublegal acts of the approved law on start-ups.
- c. Establishment of the Council of Start-ups.
- d. Continuation of the online portal for online self-registration of the start-ups and facilitators.

b. Activities planned in 2023

- a. Fully operational the establishment of the Council of Start-ups.
- b. Implementation of the law on start-up, with focus on supportive measures;
- c. Running of the online portal for the online self-registration of the start-ups and facilitators.

c. Activities planned in 2024

- a. Running of the Council of Start-Ups.
- b. Implementation of the law on start-up, with focus on delivering supportive measures to online self-declared start-ups.
- c. Running and maintenance of the online portal for the online self-registration of the start-ups and facilitators.

2. *Results indicators*

Indicator	Baseline	Intermediate target	Target
Adoption of the new law “On start-ups” and the bylaws	Under revision	Implementation (2022)	Implementation (2024)
Establishment of the Council of Start-Ups	Under revision	Implementation (2022)	Implementation (2024)
Adoption of the policy framework and supporting schemes on start-ups	0	in place (2022)	Implementation (2024)
At least two calls for applications for supporting schemes on start-ups and at least 10 start-up financed by the calls	23 start-ups and 4 Innovation Supporting Organizations grants under the 1st and 2nd calls launched during 2019. The 3 rd call was launched in 2020 and is currently in the final phase of the evaluation.	$\geq (t-1)$ (growing trend)	$\geq (t-1)$ (growing trend)

3. *Expected impact on competitiveness*

Entrepreneurship and start-up policies can encourage the emergence and growth of start-up companies by providing an entrepreneurship-friendly environment (e.g. through easing the financial burdens for start-ups). With their focus on new business ideas and services, start-ups represent a specific segment of the economy, which has the potential to determine the success and well-being of the economy in the long run. Start-ups bring new interventions, adapt existing technologies to the market, and therefore create possibilities for the commercialization of scientific research outputs.

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, respectively.

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

Start-ups create jobs in future-oriented sectors of the economy and bring a proactive impulse to the economy through their competitive and dynamic way of operating. Planned start-up and entrepreneurship activities will have a focus on

- a) supporting innovation in priority areas for the development of the country;
- b) supporting initiatives that have a positive environmental impact;
- c) empowerment of women entrepreneurs;
- d) strengthening social inclusion, diversity and social impact;

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

The measure does not foresee direct impact on the environment.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Low level or lack of cooperation and coordination among competent government bodies and nongovernmental organizations	low	Increasing the level of cooperation through joint tables, working groups, etc.
Postponement of the approval of the new law on innovative Start Up	High	Increasing the awareness at political level of the need of this law

Reform measure08: Support measures to MSMEs

1. *Description of measure*

SMEs in Albania are significant contributors to the economy. In 2019, Small and Medium-sizes Enterprises (SMEs) account for 99.8 % of all enterprises, 81.6 % of total employment and 72.4 % of value added – more than in most countries in the region. Value added of SMEs increased by 17.4% between 2017 and 2019 and by 28.3% between 2016 and 2019. Micro enterprises make up the majority of SMEs.

According to the OECD Competitiveness Outlook Report 2021, for Albania's access to finance score has increased slightly – from 2.4 to 2.5 – since the previous assessment, reflecting some new elements introduced in this cycle. There has been some improvement in access to bank finance, most notably the adoption of the new capital market law which will help to mobilise long-term financing.

Alternative financing sources remain very limited in Albania, creating a major hindrance for business that don't meet the traditional banking criteria. Factoring and leasing are available and backed by well-developed legal frameworks, but crowd funding, venture capital and business angel networks are non-existent. However, from 2022, Albania will focus to the development of crowd funding platforms, venture capital and business angel networks for entrepreneurs and start-ups that are not eligible for traditional bank lending. Under the EU for innovation programme (first phase) is under development the testing of establishment of a pilot business angel network. Even at the EU4Innovation second phase, a very significant budget allocation is dedicated towards the increase of access to finance of start-ups not only through grants, but also through the development of the other alternative financial instruments.

With assistance of EBRD, the Ministry of Finance and Economy in May 2020 established a centralised information portal which provides the information on all available financial instruments for SMEs. This platform is fully operational.

In addition, a report on "Support for the digitalization of SMEs in Albania to mitigate the negative economic impact of COVID-19" is prepared by MoFE by the support of the EBRD. Based on this report in the new "Strategy for development of Business and Investment 2021-2027" a new priority measure is formulated namely "e-business development initiative". This measure aims to:

- Improve SMEs' competitiveness and access to markets by helping them to adopt digital solutions for e-commerce and e-business
- Strengthen digital capabilities and skills of SMEs
- Ensure a sound business and regulatory environment for e-commerce to support entrepreneurs and SMEs using synergies with measures foreseen in the new Digital Agenda and CRM 2021-2024.

Based on this report, considering the basis of digitalization, internet connection, Albanian SMEs are performing at an adequate level. About 98% of Albanian SMEs are connected to the internet, or in other words having at least one employee using internet for business purposes.

In addition, the ProSEED project since February 2021 is implementing the Advisory Instrument that provides training and advisory services to MSMEs, with the possibility of receiving small grants, in order to adapt to the situation created by Covid-19. The advisory instrument entitled "CoSolve 19" is a joint initiative of the bilateral programs of the German-Albanian Development Cooperation: "Sustainable economic and regional development, employment promotion education and vocational training" (ProSEED) and Sustainable Rural Development (SRD). The purpose of this instrument is to support MSMEs severely affected by the consequences of the COVID-19 crisis in Albania, to maintain employment and to adapt their business activity according to the new situation after COVID. In implementing this initiative, ProSEED and SRD aim to make a significant contribution to MSMEs in Albania in the agriculture, tourism, or other sectors. The project will be implemented for the period 2021-2022. The total number of beneficiary MSME is 900 which will get advisory services. The final overall volume of CoSolve-19 is 4.35 Mio EUR and the division of total funds is 40% advice and 60% grants for all sectors. Support measures for micro, small and medium enterprises from agriculture, tourism, retail trade and manufacturing will enable them to successfully overcome the COVID-19 crisis, to maintain and in the medium term even increase employment as well as introduce new digital business solutions and tools.

The Decision of Council of Ministers no. 466, dated 30.7.2021 "Business and Investment Development Strategy and Action Plan 2021-2027" (BIDS 2021-2027). The vision of the strategy is "A competitive, more innovation-driven and knowledge-based Albanian economy that creates new and higher-quality jobs tapping the potentials of the digital transition and the transformation of international value chains and emphasizing sustainable development, EU and regional integration"

BIDS 2021-2027 is in line with comprehensive strategies and programs at the national level such as the National Strategy for Development and Integration II 2015-2020, the National Plan for European Integration (PKIE), the Economic Reform Program (ERP), as well as internationally such as the 2021-2024 Common Market Action Plan (CRM) for the Western Balkans and the new EU SME Strategy. The strategic framework and action plan of the new BIDS has been drafted with the aim of developing and complementing measures and initiatives for the implementation of these strategies and programs.

Three main objectives of the strategy are as following:

- Investment Attraction and Internationalization
- SME development, entrepreneurship and innovation
- Human capital development

During 2021, the Business Promotion Sector, in the Directorate of Economic Development Policies in the Ministry of Finance and Economy has drafted the draft law "On the development of micro, small and medium sized enterprises". The approval of the draft law is intended to be done within 2021. The main elements of the new draft law, worthy to be emphasised are: Approximation of the EU Commission Recommendation of 6 May 2003, regarding data collection and the methods in the calculations for the categorization of micro, small and medium sized enterprises and the implementation of the methodology for its use by businesses. The definition for medium-sized enterprises has also been added; Provision of state support to micro, small and medium sized enterprises, in accordance with the state aid rules; Determination of the forms of state support for micro, small and medium enterprises, such as: financial support from the state budget, from domestic or foreign development partners, state loan guarantees according to the law in force on state debt and guarantees, in implementation of specific policies of the Council of Ministers, in accordance with the fiscal principles and rules on public debt sustainability and limitations of state debt and state loan guarantees, as well as the provision of public support services for micro, small and medium sized enterprises by AIDA; the preparation

of the annual report by AIDA, based on the database on financial schemes and public service support for MSMEs provided by state authorities as well as by domestic or foreign development partners; Establishment and the functioning of the Consultative Council for enterprises; as well as a legal reference for drafting and approval of the strategy for Business Development and Investments.

a. Activities planned in 2022

- Drafting of the annual SME state budget grant schemes.
- Establishment of the new sector on training in AIDA.
- Implementation of a modular training programme with complementary coaching and mentoring for aspiring entrepreneurs.
- Organization of webinar on e-commerce for MSME.
- Establishment of the digital market matching portal by the Albanian Union of Chambers.
- Establishment of an information website (incl. guides and self-assessment tool) under E-business development initiative, at AIDA.
- Development of export strategy (key initiatives, actions).
- Establishment of a pilot business angel for start-ups.
- Monitoring the progress of the implementation of the objectives and measures of BIDS 2021-2027.

b. Activities planned in 2023

- a. Drafting the annual SMEs state budget grant scheme.
- b. Conducting training and coaching for MSME's by AIDA.
- c. Implementation of capacity building measures (training and coaching programmes for SMEs) under E-business development initiative.
- d. Design of a supplier development programme and implementation of a pilot phase.
- e. Establishment of business angel network.
- f. Monitoring the progress of the implementation of the objectives and measures of BIDS 2021-2027

c. Activities planned in 2024

- a. Drafting the annual SMEs state budget grant scheme (MFE).
- b. Implementation of training and coaching for MSME's by AIDA.
- c. Adaption of the legal framework on crowd funding.
- d. Monitoring the progress of the implementation of the objectives and measures of BIDS 2021-2027

2. Results indicators

Indicator	Baseline	Intermediate target	Target
Adoption of the new structure in MFE	0	June 2022	December 2023
The number of users of the centralized information platform	1000	1500	2000
(No. e beneficiary MSME from AIDA grants)	373	400	450

3. Expected impact on competitiveness

Improved access to finance for SMEs and a direct impact on higher competitiveness of that part of the economy, which has the largest contribution to GDP and employment in the non-financial sector. Investment growth driven by better access to finance will have a positive impact on capacity expansion, technological modernization of production, productivity growth and introduction of new, innovative products and services by SMEs.

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.

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

Introduction of new financial instruments for starting a business and development of SMEs will contribute directly to job creation and self-employment. The reform is particularly important because it will help empower women entrepreneurship by facilitating communication channels towards financing, which is important for women entrepreneurs.

6. Expected impact on the environment and climate change

This measure is not foreseen to have an impact on the environment.

7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Postponement of the approval of the new law on SME	High	Increasing the awareness at political level of the need of this law
Delays of at the implementation of the measures foreseen at BIDS	High	Increasing the awareness of the importance of BIDS.

Reform measure 09: Modernisation of retail payment instruments

1. Description of measure

This measure draws from the list of actions included in the National Retail Payments Strategy and which are under the responsibility of the Bank of Albania. The overarching objective of the National Retail Payments Strategy is to promote the intensive use of modern retail payment instruments across the whole country, with the goal of achieving 10 cashless payments per capita by end-2023. Broadening access to transaction accounts is a necessary condition to achieve the overarching objective. In this regard, Albania aims at achieving an adult account ownership ratio of 70% by 2023. This measure is part of national reforms since 2020.

The above mentioned objectives will be achieved through a detailed action plan which foresees several actions from legal and regulatory perspective and infrastructural developments.

1) Improvements of legal and regulatory framework

- a) The approval of the draft Law “On payment services” which transposes the revised EU Directive 2015/2366 and its implementation by the market actors.
- b) Drafting a legal act that will transpose the European Union directive "On the payment account".

The Law “On payments services” transposing the EU Directive 2015/2366 has been approved in 2020. The by-laws are being drafted and the law will be implemented by the market actors in 2022.

A draft on the Law “On the payment account” has been finalised by BoA in 2021. Among many benefits, the implementation of the legal acts transposing the directive PAD supports the achievement of a scale volume payments by establishing the criteria for the use of a “basic account” which bears no costs or lower cost for the holder. As such, among other market segments it will support the government to leverage the use of “basic account” products to broaden payments including disbursement of pensions and beneficiaries of welfare programs. Hence the transposition creates preconditions for financially including the population that receive social benefits, pensioners and students taking in to account that they will not bare cost for the use of “basic account”. The use of basic account for such purpose is part of the NRPS¹⁹, as well as part of the World Bank report on Government Payment Digitalization which was based on the public data and bilateral meeting with

¹⁹ The Albanian National Retail Payments Strategy is the result of a joint effort by Albanian public and private sector stakeholders, led by the Bank of Albania, and adopted by the National Payments System Committee. Available at https://www.bankofalbania.org/Payments/National_Payments_System_CommitteeN/Fourth_Meeting_of_the_National_Payment_Systems_Committee_2018.html

different government agencies. The results were shared also with all the market players and also presented in the Fifth Meeting of the National Payment System Committee²⁰.

2) Infrastructure and technological improvements like:

- a. Possibility of implementing a national card-processing platform (SWITCH)/'instant payment'. A feasibility study was drafted with the support from the World Bank in 2021. The report highlighted that the Albanian Market should be focused more on the instant payment solution rather than a "SWITCH" platform. An instant payment infrastructure meets the needs and the possibilities for investments from the market.
- b. Implementation of interbank direct debit schemes. The regulatory framework has been drafted and the infrastructure is already in place.
- c. Establishing a system for the settlement euro transfers for domestic payments. The system has been provided by BoA and it is expected to be operational in 2022.
- d. Operationalizing the category of "indirect participation" in the AECH (achieved since 2020- however there is no interest from the market to participate in the system till 2021).
- e. Promoting the provision of infrastructure for instant payment, which best meets the market needs and also justifies the cost of investment based on the market development.

a. Activities planned in 2022

- a. Approval of the legal acts that transposes the European Union directive "On the payment account".
- b. The implementation of the "Law on Payment Services" and regulatory framework enforcing the law by the market.
- c. The system for the settlement euro domestic payments is going to be operational.
- d. The interbank direct debit is going to be operational and all existing direct debit mandates is going to fulfil the rules of the scheme.
- e. Regarding national platforms is going to be promoted the most suitable option which meet the market needs and also justify the cost of investment based on the market development.

b. Activities planned in 2023

- a. Monitoring the implementation and effects of already achieved objectives/ measures as well as evaluating the possibility to extent BoAs and other actors efforts one enlarging.

c. Activities planned in 2024

No other activities foreseen.

2. Results indicators

Indicator	Baseline (year)	Intermediate target (year)	Target (year)
Implementing the he Law "On payment services"	Drafting the regulatory framework enforcing the Law (Q4 2021)	The implementation of legal and regulatory provision of the Law by the market actors 2022	New actors and solutions in the payment service market 2023. The law will help achieve the National Retail Payments Strategy goals of reaching 10 cashless payments per capita and an adult account ownership ratio of 70% by end of 2023.
Implementing legal act that will transpose	Drafting of the legal act (2021)	Approval of the Law (2022)	Implementation of the Law 2022

²⁰. https://www.bankofalbania.org/rc/doc/01_Government_payment_digitization_in_albania_NPC_15758.pptx

the European Union directive "On the payment account"			
Operationalization of the regulatory and infrastructure for the interbank direct debit schemes.	Approval of the regulatory framework within Q4 2021	Implementation of the scheme (from the beginning 2021) by the market actors and changing existing mandate (till the end 2021)	Fully operational scheme
Operationalization of the systems for the settlement of domestic payments in Euro.	The project is going to be finalised by the end of 2021.	In 2022 the system is going to be live.	In 2023 is going to be monitored the impact of the system in the market based on the objectives of the NRPS
Feasibility study for implementing a national card-processing platform (SWITCH) / 'instant payment'.	Finalisation of the feasibility study and personation of the more feasible and suitable options to the market players/ actors in 2021.	Supporting the implementation of more suitable solution for the Albanian market in 2022.	Supporting the implementation of more suitable solution for the Albanian market in 2023 ²¹ .

3. *Expected impact on competitiveness*

The implementation of the law “On payment services” will create an appropriate level playing field for non-bank financial institutions to offer innovative electronic payment services through: a) allowing them to open payment accounts and offering electronic payments (which in actual legislation is not permitted); creating a licencing and supervision of the institutions offering payments services proportionate to the risk that these institutions bears; c) guarantying their access to payment systems; d) quarantining access to TPP (account information service providers and account information payment services providers) to clients account information after the explicit consent of the client through the creation of Open Banking infrastructure; and e) the creation of prudential framework for consumer protection.

Drafting the legal act that will transpose the European Union directive "On the payment account" is expected to increase competition through enhancing further the transparency of the services offered in the market and by increasing movability of clients through establishing more cost effective switching procedures between deferent payments service providers.

Approval of changes in regulation and infrastructure for “indirect participation” in the AECH enhance the level playing field between banks and non-bank financial institutions which offer payments services.

Implementing a national card-processing platform (SWITCH)/'instant payment' increases competition for processing costs of card payments and that between card payments and electronic credit transfers.

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

The legal and regulatory framework foreseen in the reform are supported from the technical assistance of the World Bank, which is financed by SECO. On the other hand, infrastructural developments are financed as following:

- The interbank indirect debit scheme will use the existing infrastructure.
- The system for the settlement euro transfers for domestic payments is financed by Bank of Albania.
- Following the feasibility report from World Bank, BoA will support the option of instant payment solution for national market, and can be developed by private entities/market actors depending on

²¹ The feasibility study has highlighted that most suitable solution for the actual market condition and financial inclusion of Albania is to create a light solution by a fintech company licenced by BoA. BoA will promote the process. For a small country like Albania there is no economic concept creating a national SWITCH, where in the same time innovative solutions are being promoted (open banking-payment invitation, etc.)

market development. The cost is roughly estimated at around 2-3 million euro²².

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

Taking into account that the law on “Payment Services” fosters the involvement of fintech companies in the financial sphere, it is evaluated that the entrance of new payment service providers is going to enhance employment. It is broadly accepted that financial inclusion is an important component on reducing poverty. To this this regard, taking in account that the national retail payment strategy has as overarching objective increasing the percentage of population which have access to finance from 40% to 70%, the strategy has a direct impact in poverty reduction. The measures here are part of the national strategy.

6. Expected impact on the environment and climate change

The strategy is evaluated to promote the electronic payments versus paper based one. To this extend is evaluated that the new payments services is going to promote more environment-friendly policies.

7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Failure to approve laws and regulations at the appropriate level on the planned schedule for approval and/or approval of other laws indirectly related that impede or cannibalise the aimed objectives of listed planned law/regulative changes.	Low	Coordination between different institutions through National Payment Systems Committee.
Lack of involvement of all stakeholders that contribute to drafting, implementing and executing changes in laws/regulations and in infrastructures planned to be implemented.	Low	Coordination between different institutions through National Payment Systems Committee.
Lack or limited know-how and expertise to apply changes in law/regulation and/or technical implementations of foreseen infrastructural improvements	Low	Bank of Albania is working intensively to have the appropriate expertise form World Bank and EU countries' Central Banks

Box- Main recommendation on the analyses “Government Payment Digitization”

Recommendation 1 -The Social Insurance Institute (SII) should migrate all retirement pensions and other allowance payments from cash to electronic funds transfers to the accounts of the beneficiaries.

PRIORITY: HIGH

Delivering pensions and other cash allowances through accounts at banks or other Payment Service Providers (PSPs) can have numerous benefits for the SII in terms of reduced leakage, lower transactions costs and others. For program beneficiaries, having a transaction account would open the door to the digital world and eventually for gaining access to other financial services provided by regulated entities.

The SII could therefore consider depositing pensions to bank accounts as the default option, and manage exceptions in the short-run (though always with the long-term vision of eliminating cash). These accounts should represent little or no cost to pensioners (i.e. similar to the existing “salary accounts” or, in the future, the basic accounts).

Is going to be fulfilled with the transposition of PAD

Recommendation 2-Social assistance programs that entail a periodical monetary disbursement to beneficiaries should be delivered directly to accounts of the beneficiaries at banks or at other PSPs.

PRIORITY: HIGH

Currently, with very few exceptions social assistance programs are delivered in cash to the beneficiaries.

²² The expected costs for a full instant solution is 2-3 million Euros. However, based on the market conditions (according to feasibility study) the most feasible solution is to be create a light solution by a fintech, which presumably will cost less.

As with retirement pensions, delivering social assistance programs through accounts can have numerous benefits for the administrators of these programs as well as for beneficiaries.

As with Recommendation #1, recipients should receive their benefits in an account that bears little or no cost to them (i.e. a basic account). Also, a sufficient number of service points for the new account holders is critical for an initiative like this.

Is going to be fulfilled with the transposition of PAD and the implementation of the law “On Payment Services” which is going to create new actors and also extend the presence of PSP by introducing banking agent model and digitalisation.

Recommendation 3- For the disbursement of salaries, the National Treasury should consider executing all payments from its account at BoA directly to the account of the beneficiary, without the intervention or intermediation of any other party.

PRIORITY: MEDIUM

In this way, public-sector employees would be effectively able to select the bank/PSP of their choice. Under this scenario, there is a higher probability that these individuals will use the store-of-value feature of their account, as well as the electronic payment tools that come with the account. Moreover, the portability of accounts would allow these citizens to change their bank/PSP if they are not satisfied with the service(s) they receive from their current service provider.

The National Treasury should execute all these payments from its account at the BoA, using the AECH, for which it would need to receive from the various government entities the beneficiary account numbers and the amount payable to each of these accounts. Government entities would remain responsible for the accuracy of this information. Clearly, automated processes would be necessary to reduce errors significantly.

In a straight-through-processing environment between banks, the Treasury and government entities, reconciliation of salary payments would be quasi automatic, only caring for confirmation on the payment having been credited to the recipients' accounts.

This recommendation is addressed in MoFE and Public Administration Department.

Recommendation 4- Expand e-Albania in terms of the number of government services that can be paid via the portal and also the number of payment instruments that can be used (in addition to cards).

PRIORITY: HIGH

In this direction there are several action by E-Albania as presented also in the last Meeting of the National Payment System Committee²³

Recommendation 5- The structure of transaction fees for government collections should be reassessed. One of the key objectives of this reassessment should be to incentivize the use of electronic instruments and channels by differentiating the fees for those options vis-à-vis cash.

PRIORITY: MEDIUM

The pricing structure should promote the usage of electronic channels and instruments, such as internet banking, mobile money platforms and payment cards. In other words, fees for payments to government entities made via electronic channels should be significantly lower than when those payments are made in cash at the teller.

To this direction, the revision of AIPS²⁴ and AECH²⁵ regulation in 2020 promote this recommendation taking into account that all electronic credit transfers cleared and settled by these systems should be 50% lower than paper passed credit transfer, while for electronic credit transfers up to 20,000 is mandatory not to apply commissions.

Recommendation 6 To promote competition in the provision of collection services for government entities, non-bank PSPs should gain direct access to the BoA's AECH.

²³ https://www.bankofalbania.org/rc/doc/16_NRepishti_AKSHI_electronicpayments_e_Albania_18144.pdf

²⁴ https://www.bankofalbania.org/About_the_Bank/Legislation/Regulation_no_36_On_the_function_of_Albanian_Interbank_Payments_System-AIPS.html

²⁵ https://www.bankofalbania.org/About_the_Bank/Legislation/Regulation_No_35_On_the_function_of_Albanian_Electronic_Clearing_House-AECH.html

PRIORITY: MEDIUM

Already archived with the revision of AIPS and AECH regulation in 2021.

5.2. Analysis of obstacles in other areas**5.2.1. Public Financial Management***a. Analysis of main obstacles*

The main obstacles related to Public Strategic Investment are:

- (i) over-optimistic plans, inadequate project design, excessive splitting-up of projects and relatively weak project management capacity have contributed to inefficiencies in PIM delivery. These obstacles are mentioned also in the public investment management assessment (PIMA) in 2016 conducted by IMF.
- (ii) the merging of the Ministry of Economy with the Ministry of Finance has presented coordination issues with the management of PPPs within the overall PIM framework

*b. Reform measures***Reform measure 10: Public Strategic Investments***1. Description of measure*

The proposed reform measure on Public Strategic Investment will aim to:

- a. Develop a PIM strategy, including a PPPs;
- b. Strengthen the capacity across government to appraise public investment projects;
- c. Improve monitoring of public investments including PPP projects and concessions.

a. Activities planned in 2022

- a. Develop Public investment strategy to guide public investment.
- b. Prepare and maintain the single project pipeline (including PPP) based on strategic clear selection criteria linked to strategic documents, government priorities and sectorial priorities.
- c. Develop methodology to develop feasibility studies, Cost Benefit Analysis, Environmental and Social Impact Assessments and project prioritization tools.
- d. Improve Monitoring framework of strategic investments based on KPI.
- e. Develop comprehensive reports on public investments.
- f. Improve monitoring framework of concession/PPP contracts.
- g. Strength/develop the capacities for evaluation of new concession/PPP projects.

b. Activities planned in 2023

- a. Strength/develop the capacities across government to identify, prepare and appraise public investment projects.
- b. Develop the methodology on the allocation/re allocation of the budget funds for strategic investments.
- c. Strength/develop the capacities across government institutions to rise fund absorption for strategic investments.
- d. Improve the process of inclusion of public investments within MTBP cycle.
- e. Complete the full Database of monitored contracts and follow-up the process of monitoring the concession/PPP contracts.
- f. Develop methodology regarding the evaluation of new concession/PPP projects.

c. Activities planned in 2024

- a. Strength/develop the capacities across government institutions to monitor the concession/PPP contracts.
- b. Consolidate and improve the methodology of evaluating new concession/PPP projects.

2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2022)	Target (2023)	Target (2024)
Share of public investment projects that are proposed based on the strategic priorities of the government	82%	> (t-1) (growing trend)		

(value of projects in specific year)				
Actual disbursements for major investment projects compared to planned disbursements along with explanation of variations	95%	98%		
Ratio of new public investments submitted within the MTBP Cycle versus total new public investments approved in one year	46.35%	> (t-1) (growing trend)		
Number of monitored contracts vs. total of existing contracts	82%	100%	100%	100%

3. Expected impact on competitiveness

Investment integration can improve competitiveness through two channels: first, by increasing the size of the market available to domestic firms; and second, by driving productivity and innovation by exposing firms to international competition, expertise, and technology.

Perspectives on competitiveness are critical to effective policies to promote growth and development. Policies focus on the creation of an attractive investment climate especially for small and medium-sized enterprises to spur innovation and competitive performance. Also, focused policies and effective private-public sector partnerships promote innovation and facilitate competitive performance.

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

For the year 2020 and 2022 the estimated of costs was imported by the PFM Action Plan 2019-2022 (PFM strategy 2019-2022).

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

Investment leads to productivity improvements, which in turn lead to increased growth. This then leads to improved profits and additional investment, and in an ideal economy, the cycle continues. Thus, investment is somewhat the key critical point.

Public investment can affect a national economy in multiple ways. First, the capital investment should increase the capacity and/or efficiency of production, which will lead to economic growth, which shows up in two critical ways. First is the ability for businesses to reinvest their profits to continue this growth, and second, the labour population and consumers who obtain employment due to this growth will have more money on hand, which will increase their spending. This provides additional revenue and capital for businesses, and businesses can then continue the cycle of investment to increase production.

Public investment stimulates economic activity through short-term effects on aggregate demand, and it raises the productivity of existing private capital (physical and human). Public investment also encourages new private investment to take advantage of the higher productivity it creates, increasing economic growth. For this is needed a better governance infrastructure, where stronger institutions manage public investments.

A significant increase in public investment would create jobs in the short run and raise the growth of average living standards in coming decades.

Public investment on rural education has the largest impact on poverty, followed by spending on agricultural and on rural roads.

6. Expected impact on the environment and climate change

Policies and public investments can lock-in households and businesses into economic activity that limits their flexibility and increases vulnerability. Authorization of new coal-fired power plants locks in high levels of emissions for decades to come. Construction of a dyke will encourage households and businesses to invest, work and live in the protected area, leaving them exposed to extreme events and discouraging them from seeking alternatives. In order to mitigate the climate change the public sector works to change technology, production and consumption so that they reduce greenhouse gas emissions. All public sector projects should take climate change impacts into account, seeking to minimize adverse impacts on climate through mitigation and minimize adverse climate impacts through adaptation. This requires careful appraisal. Appraisal techniques should integrate the direct and social costs of climate change and build in flexibility to respond to

the uncertain impacts of climate change. Such investments require careful appraisal of costs, benefits and the risks inherent in long-term public investment plans.

7. *Potential risks*

Risk	Probability (low, high)	Planned mitigating action
Delayed legal/ Regulatory changes	M	
Adequate Human resources	M	
Inadequate coordination	L	
Risk of law changes	High	Adaptation of procedures in terms of changing the law

5.2.2. Green transition

a. *Analysis of main obstacles*

The Green Agenda for the Western Balkans currently developed by the European Commission is following the same direction as the EU Green Deal – it aims to unlock the great green economy potential of the region while enhancing their citizens' health. Therefore, the new policy is shaped around 5 areas of intervention: decarbonisation, circular economy, pollution reduction, sustainable farming and biodiversity. For all future comprehensive trade agreements with the countries of the region, the European Commission will make sure that the implementation and respect of the Paris Agreement are a crucial element.

Recognising the potentials of the green economy in Albania, the government and all development 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. Political interest of most stakeholders and political authorities slows development and adoption of strategies. 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.

5.2.3. Digital transformation

a. *Analysis of main obstacles*

Digital infrastructure and broadband are crucial for all other developments in digital integration and impact 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.

Broadband development is one of the key priorities in the strategic documents in Albania. Albania has approved a National Plan for Sustainable Development of Digital Infrastructure, Broadband 2020-2025 (NBP) by Decision of the Council of Ministers No 434 dated 3.6.2020. The Plan has defined three strategic objectives of broadband development as follows:

- ✓ Strategic Objective 1: Sustainable development of broadband infrastructure.
- ✓ Strategic Objective 2: Reducing the digital divide and providing comprehensive broadband services.
- ✓ Strategic Objective 3: Increasing Demand for Digital Economy Development and a Gigabit Society.

The Plan aims to further advance the development of broadband infrastructure throughout the country and address the digital divide. The four priority pillars that the new National Broadband Plan is built on are: 1) Broadband infrastructure builds out; 2) Strengthening of financing and broadening of funding basis; 3) Spectrum management; and 4) Sustainable competition. A key new element in the NBP includes the planned

enablement of public funding through USO (Universal Service Obligation) and State aid to further infrastructure coverage in rural and remote areas. The National Broadband Plan has defined objectives to increase the broadband penetration. The development of broadband and digital infrastructure asks for large investments and for creating synergy between all infrastructure projects and projects related with digitalization in central and local level.

A fully-fledged Feasibility Study on broadband development was prepared with the support of EU through WBIF project²⁶. The feasibility study has estimated the investment costs for future proof broadband investment in white, grey, and black areas under different scenarios. The development of broadband networks requires huge investments especially to cover the white areas.

The main legal framework for telecommunication sector is the law no. 9918, dated 19.5.2008 for electronic communications in Republic of Albania as amended. This law is based on EU electronic communication package of 2002 as amended by directives of 2009. Furthermore, Albania has approved also the Law no. 120, dated 24.11.2016²⁷ for broadband development. This law 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. In addition, there are some social and environmental benefits. The implementation of the Law no. 120/2016 is ongoing. OST (Transmission System Operator), the electricity provider, has recently been provided with Authorization by AKEP (Electronic and Postal Communications Authority), for the provision of telecommunication services, the provision of broadband access over OST fibre optics.

During 2020, by the decision of the Council of Ministers was approved the Spectrum Policy document. This document defines the multi-annual program of spectrum policy aiming a strategic planning and harmonization of the use of the frequency spectrum to ensure the efficient use of the frequency spectrum in accordance with EU policies on the use of the frequency spectrum, in the field of electronic communications, research, technological and spatial development, transport, energy and audio-visual broadcasting.

In December 2018, the European Union has approved a new electronic communications code by Directive 2018/1972/EU. The new electronic communications code repealed the EU regulatory package for electronic communications 2002/19/EC, 2002/20/EC, 2002/22/EC, 2002/21/EC, as amended. The code's provisions include measures to stimulate investment in and take-up of very high capacity networks in the European Union, new spectrum rules for mobile connectivity and 5G, as well as changes to governance, the universal service regime, end-user protection rules, and numbering and emergency communication rules. The transposition of this new directive in national legislation is planned during 2022.

Based on Prime Minister's Order no. 157 dated 22.10.2018, "On measures for the implementation of a broad sectorial / cross-sectorial approach, as well as the establishment and functioning of the sectorial / cross-sectorial integrated mechanism" the IPMG-s (Integrated Programme Management Groups) and Sectorial Lead Committees were established. The "Connectivity" Sectorial Lead Committee led from Ministry of Infrastructure and Energy. The telecommunication and broadband is a specific thematic group part of the Connectivity Committee.

b. Reform measures

Reform measure 11: Development of the broadband infrastructure for digital economy

1. Description of measure

Development of the broadband Infrastructure is one of the important goals for social and economic development. Digital infrastructure and digitalisation is part of regional strategic documents. The objectives for broadband development are in line with EU Digital Agenda, and 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. 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 adopted from the European Commission on 6th of October 2020²⁸. The Commission is therefore presenting, together with this Communication, a Green Agenda for the Western Balkans, as foreseen in the European

²⁶ https://eeas.europa.eu/delegations/albania/83464/regional-broadband-infrastructure-development-albania-closing-workshop_en

²⁷ Law "On the development of high-speed electronic communication networks and the provision of the right of way" fully approximates Directive no. 2014/61/EU

²⁸ https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/communication_on_wb_economic_and_investment_plan_october_2020_en.pdf

Green Deal. 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 reform measure for development of the broadband infrastructure and digital economy is full in line with EU decisions and programs for digital agenda and green agenda which includes measures to ensure that digital technologies such as artificial intelligence, 5G, cloud and edge computing and the internet of things can accelerate and maximise the impact of policies to deal with climate change and protect the environment. Digitalisation also presents new opportunities for distance monitoring of air and water pollution, or for monitoring and optimising how energy and natural resources are used'.

The proposed reform measure will Increase the investment, improve the broadband penetration, increase the efficiency of the existing infrastructure through infrastructure sharing, as well as will increase the competition. In addition, there are some social and environmental benefits through:

- Better broadband coverage which means social and territorial cohesion,
- Increase synergies across sectors e.g. smart grids and intelligent transport systems,
- Less duplication of civil works, less digging or nuisance
- Improve the business environment through transparency and simple procedures for building 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. During the COVID-19 crisis the needs for digital connectivity for equal treatment/ non-discrimination/ addressing needs – for digital connectivity, digital skills and reliable connections are more important.

The broadband development, the Reform measure is linked with other reforms presented in the ERP such as Reform measure 09: Improving access to finance for SMEs where digitalization and ICT access for SMEs is part of activities in this reform. A new draft of the National Strategy for Education 2021-2026 (NSE) has been prepared by the Ministry of Education and Sports. The new strategy includes higher education and pre-university education. Digitalisation of education and digital skills is part of this strategic document approved during 2021.

The plan to implement this reform measure during the coming years will be:

- Establishment/nominate a national Broadband Competent Office

Institutional capacities across ministry and other institutions such as municipalities need to be increased and in line with the EU's complementary initiatives to help reach the EU's Gigabit Society Objectives, Broadband Competent Offices need to be established, that serve as a single contact point in Albania at the national and local level.

- Launch pilot projects for development of broadband infrastructure in rural and remote areas

The projects will support Albania in the development of broadband in rural areas, by preparing the Detailed Design for broadband development project in rural and remote areas. The study will provide the beneficiary with a detailed assessment of the broadband deployment scenario and especially for covering the digital gaps identified.

- Establishment of synergies with utility projects: follow up recommendations of Balkan Digital Highway study

Encouraging synergy in utility projects such as energy, water, gas, transportation, will also be an opportunity to reduce costs for developing Broadband infrastructure.

a. Activities planned in 2022

- a. Establishment of national Broadband Competent Office (Implementing Institution: MIE).
- b. The Broadband Atlas development Project (Implementing Institution: MIE, AKEP).
- c. Ongoing - Launch pilot project for development of broadband infrastructure in Zone 1 (rural and remote/tourism areas in north part of Albania (Shkodër, Kukës, Tropojë, Dibër) (Implementing Institution: MIE).
- d. Ongoing - Broadband Development in south part of the country (for broadband development in white areas Vlora, Gjirokastra, Fier, Berat, Korçë) (Implementing Institution: MIE).

b. Activities planned in 2023

- a. Investments in white areas (Implementing Institution: MIE).
- b. Increase, strengthened capacities to drive digital transformation and broadband infrastructure development (Implementing Institution: MIE other related institutions).

c. Activities planned in 2024**a. Investments in white areas (Implementing Institution: MIE)****2. *Results indicators***

Indicator	Baseline (2020)	Intermediate target (2023)	Target (2025)
Share of areas covered by fixed broadband, including rural areas	58%	70%	90%
Average internet bandwidth in public schools and health facilities	6-12 Mbps	20 Mbps	100Mbps
Share of SMEs with broadband connection	79,8%	90%	95%

3. *Expected impact on competitiveness*

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. The development of rural and remote areas through usage of ICT for businesses and farmers, and the resultant access to knowledge and state of art of technological methods as part of this reform are expected to improve the competitiveness in these areas.

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

i. Establishment of national Broadband Competent Office
EUR 100.000 MIE budget (separated in 2022, 2023 and 2024)

ii. The Broadband Atlas Project
Total cost 280.000 Euro (MIE budget 30.000 Euro²⁹; Grants 250.000 Euro)

iii. Pilot project for development of broadband infrastructure in Zone 1 (rural and remote/tourism areas in north part of Albania (Shkodër, Kukës, Tropojë, Dibër);
Total cost 800.000 Euro (MIE budget 100.000 Euro³⁰; Grants 700.000 Euro)

iv. Adoption of the new law on electronic communications, in line with the new European Electronic Communication Code approved by the EU in 2018

v. Broadband Development in south part of the country (for broadband development in white areas Vlorë, Gjirokastra, Fier, Berat, Korçë);
Total cost 900.000 Euro (MIE budget 100.000 Euro³¹; Grants 800.000 Euro)

vi. Investments in white areas
 5 million Euro (are required for funding in white areas but funding has not been secured yet).

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

Some of the social benefits of the reform are:

- Better broadband internet coverage, which translates to social and territorial cohesion;
- Increase of synergies across sectors, e.g. smart grids and intelligent transport systems;
- Less duplication of civil works, which means less digging and/or noise pollution;
- Improved business climate via transparent and simpler procedures for construction permits;
- Equal access;
- Non-discrimination;

²⁹ Subject to midterm budget approval

³⁰ Subject to midterm budget approval

³¹ Subject to midterm budget approval

- Job creation etc.

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 sharing infrastructure and coordination of civil work in deployment of broadband infrastructure going digital reduces air pollution and environment impact.

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 from synergies and joint investments	Medium	Monitoring, reporting and continued close cooperation between stakeholders
Lack of cooperation between different actors involved in this process is one of the difficulties identified in the sector	Medium	

5.2.4. Business Environment and reduction of the informal economy

a. *Analysis of main obstacles*

Despite recent progress increasing the number of registered businesses, they sometime still do not declare taxes or workers and mainly transact in cash. Informal businesses generally have lower productivity than formal businesses, which is both a drag on firms and a drag on the economy. Public revenues are reduced by hidden economic activity, resulting in diminished provision of public goods and services. Business conducted outside the regulated economy raises safety, health, social protection and environmental risks for workers and communities. Informality impedes not only the development of those businesses that decide to remain informal but is also a hindrance to the formal companies faced with competition from the informal sector. By being outside the formal economy these companies lack the opportunity to benefit from access to formal finance, access to formal markets, and from the legal protection of their property, contracts, and investments. To allow businesses to better contribute to the economy it is important that the government continues to invest substantially in formalizing these MSMEs.

The Albanian government is committed to serving the good governance of businesses, as well as reducing the corruptive approach in some aspects in the fight against evasion and informality. During the period 2020-2021, the Albanian government was involved in a very important process related to the Fiscalization Law, which will directly help the Tax Administration to obtain real-time and accurate data, for all transactions of business with the tax administration, but also all the information that circulates in the "business to business" and "business to government" relationships.

The goal is that in 2021 the entire information process through invoicing will be electronic and this will exert an even greater pressure towards access to real financial statements and not fiscal ones that today we consider to be far from reality.

5.2.5. Economic integration reforms

a. *Analysis of main obstacles*

According to the OECD Outlook Competitiveness report 2021, Albania's performance on the trade policy dimension has improved since the 2018. The Albanian economy's score has increased from 2.8 in the 2018 Competitiveness Outlook to 3.5 in the 2021 assessment.

Progress made especially on regulatory transparency, improving public consultations in trade policy making and trade policy development and co-ordination. The economy's inter-institutional co-ordination mechanism

has been strengthened through the adoption of new rules and procedures for the National Trade Facilitation Committee (NTFC).

During the Covid situation, Albania is the only country that did not introduce trade restrictive measures.

Albania's exports of goods and services, which had been growing steadily since 2015, stabilised in 2018. Overall trade in 2019 was 79.6% of GDP, roughly the same as in 2018 (in real terms), compared with 75.4% in 2014. Albania's goods exports reached EUR 2.4 billion in 2019, while imports grew more slowly, to reach EUR 5 billion. In 2019, Albania's exports of goods and services reached 31.6% of GDP while its imports were 45.3%. Overall, the external trade deficit amounted to 13.8% of the economy's GDP in 2019.

Albania has intensified collaboration with the CEFTA Secretariat and RCC for the implementation of the measures of the Action Plan 2021-2024 in all priority areas related to 4 freedoms. For the majority of the pillars, the leading coordination role belongs at the Ministry of Finance and Economy.

Regarding implementation of the CEFTA **Additional Protocol 5 on Trade Facilitation**, Albania is working at the regional level to:

- extend the **Green Lanes/Corridors with EU Member States**, with Greece at Kapshtica and Kakavija Border Crossing Point;;
- reduce waiting times at the border points of the trucks and harmonising the working hours of all inspections authorities with neighbour CEFTA parties and is supporting the proposal for harmonisation of hours 24/7.
- implement the Joint Committee Decision **on Facilitating Trade in Fruits and Vegetables**, where it agreed on the list of fruits and vegetables for which the phytosanitary situation in all the Parties is similar, regionally working on drafting multiannual control plans and it is done .the registration of exporting operators who want to be involved in the exporting and the list it is sent to Secretariat.
- implement the decision of the Joint – Committee on the mutual recognition programs of the **Authorised Economic Operators (AEOs)**, as result of the awareness campaign there are 9 applications for authorisation from the interested companies. During September 2021, the Albanian Customs Administration submitted the documentations for 4 applications for AEO validation to the CEFTA Secretariat.

CEFTA Additional Protocol (AP) 6 on liberalisation of trade in services has entered into force on January 11, 2021 and started implementation after 3rd instrument of ratification is deposited.

In light of the commitment of Additional Protocol 6 and CRM Action Plan 2021 – 2024:

- ✓ it is established the working group for liberalisation of the trade in the **tourism sector** which is selected as the pilot sector of tourist guide and tour operators for harmonisation of legislation among the parties, based on the EU Services Directive. The draft decision of CEFTA joint Committee on the recognition of licensing criteria for tour operators and tour guides is prepared and is still under discussions.
- ✓ The decision of the CEFTA Joint Committee on the **Mutual Recognition of professional qualification**, starting with the pilot profession – civil engineers, is prepared and is agreed on technical level among parties. There are still under discussion two issues, on the title of decision and on the preamble.
- ✓ The draft decision of the CEFTA Joint Committee on the addition of harmonisation of horizontal commitment on **removal of the working permits** for professional activities under AP6, is prepared and is still under discussion among parties.
- ✓ The draft decision to **facilitate e-commerce** was discussed and completed. The parties are completing internal legal procedures to pave the way for the adoption of the draft decision by the CEFTA Joint Committee. The Council of Ministers of Albania has approved draft decision and waiting for other parties to approve in the CEFTA Joint Committee.

The negotiations for the **Additional Protocol 7** on Dispute Settlement under CEFTA have continued regularly. 7 rounds of negotiations were organised since January 2021. Albanian negotiating team is playing and active role in negotiations discussing important issues such cost and finance of the proceedings and the panels, entry into force of the protocol, appellate body, etc.

Albania has concluded the internal procedures and has ratified the Protocol of the revised applicable alternative rules of origin on the definition of the concept of 'originating products' and methods of

administrative cooperation”, under the Convention on **Rules of Preferential Origin Pan-Euro-Mediterranean**, with the European Union, with CEFTA and with EFTA States, before September 1st, 2021. The process is continuing with Turkey.

b. Reform measures

Reform measure 12: Deepening economic integration

1. Description of measure

National Trade Facilitation Committee: The inter-institutional group of the Coordination of the Trade Policy and Trade facilitation, already established, is recomposed by the Order of the Prime minister No. 104 dated 07.08.2020, due to the extension of its mandate by including trade in services as an important aspect of the trade facilitation, in order to response to the intensive development under CEFTA on starting implementation of the Additional Protocol 6 On Trade in Services. This inter-institutional group has included business representatives from tourism sector and business representatives of milk processing.

Up to now, there were two online meetings of the NCTF, in December 2020 and March 2021, and one live meeting in October 2021. The plan for trade facilitation 2021 - 2023 has been drafted, which contains not only obligations for trade facilitation under the CEFTA agreement but also measures to address issues raised by business representatives. The National Trade Facilitation Plan 2021–2023 was approved on June 30, 2021.

Joint cross border: In July 2021, the agreement between Albania and North Macedonia was signed for establishing joint border crossing points Qafë-Thane which will establish an integrated control – one-stop-shop – to ensure that all formalities can be completed in one place and to enable agencies involved in the process of clearance of goods to operate from a single office. The Agreement is ratified by Albanian Parliament. The implementation will start after finalisation of the internal legal procedures by North Macedonia. According to this agreement, both parties are committed to facilitate and accelerate customs and border controls, in order to facilitate the movement of people and goods.

AEO: Work will continue on mutual recognition of Authorized Economic Operators (AEO). Albania has prepared the files of 4 economic operators for which mutual recognition will be made by the CEFTA parties. The recognition process goes through the validation process of operators selected by Albania, which will be carried out by the evaluation mission of the CEFTA Secretariat.

Cross Border Trade projects: In the field of cross-border trade, two major projects have been launched: National Single Window and Trade Transport Facilitation. By the end of 2025, when these two 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.

Internationalizations of Albanian brand: By investing in technological development, we will foster a strong productive economy, ensuring that successful companies and start-ups in the country create an added value in the production chain. Manufacturing enterprises will not be more limited in the active processing regime for international ‘brands’, but will move to the next level, in the full production cycle promoting the brand "Made in Albania", with which we will compete globally

Open Balkan: In July 2021, Prime Ministers of Serbia, North Macedonia and Albania signed the Memorandum of Understanding on co-operation in facilitating imports, exports and the movement of goods in the Western Balkans. This Initiative, called “Open Balkan” is an initiative aimed at boosting economic co-operation between the three signatories, Albania, Northern Macedonia and Serbia and increasing and strengthen economic cooperation between the parties, simplify procedures related to imports, exports and movement of goods, to the widest possible extent, and gradually elimination of barriers to trade in goods. Essentially, the objectives of this memorandum are the objectives that the CEFTA member countries have agreed on in CEFTA Protocol 5, the implementation of which is progressing slowly.

This memorandum aims to facilitate the customs procedures of the parties and other border inspection authorities of goods (customs clearance procedures, veterinary, sanitary and phytosanitary inspection and food inspection), the formalities, controls and the number of documents that will be required of businesses in cross border. These measures are aimed at reducing inspection time which translates into cost reduction for business operators.

This Memorandum is a document for the Western Balkans, and not just between the three signatory countries and other WB parties are invited to participate at any time.

a. Activities planned in 2022

- a. Implementation of the Regional Action Plan for the establishment of the Common Regional Market, in cooperation with the CEFTA Parties by drafting of regional documents for implementation of actions in the 4 pillars of regional integration, (i) free movement of goods, (ii) free movement of services, (iii) movement free capital and (iv) free movement of people, including cross-cutting measures.
- b. Implementation of the Action Plan of the NCTF.
- c. Establishment of a technical group of experts that will analyse the manufacturing sectors.
- d. Drafting the export Strategy.
- e. Encouraging well-known international brands to invest or operate in Albania.
- f. Implementation of Open Balkan Initiative.
- g. Validation of Albanian AEO at CEFTA level.
- h. Finalisation of Cross Border Projects – (i) Direct trader access to Customs Information Systems (ii) Establishment of computerized export system (ii) Establishment of electronic import control system (iv) Centralized import customs clearance (v) Prior Information, Arrival, Presentation and Temporary Storage (vi) Warranty Management

b. Activities planned in 2023

- a. Implementation of the Regional Action Plan for the establishment of the Common Regional Market, in cooperation with the CEFTA Parties, by drafting of regional documents for implementation of actions in the 4 pillars of regional integration, (i) free movement of goods, (ii) free movement of services, (iii) movement free capital and (iv) free movement of people, including cross-cutting measures.
- b. Implementation of the Action Plan 2021-2023 of the NCTF.
- c. Encouraging well-known international brands to invest or operate in Albania.
- d. Implementation of Open Balkan Initiative.
- e. Finalisation of Cross Border Projects – (i) Direct trader access to Customs Information Systems (ii) Establishment of computerized export system (ii) Establishment of electronic import control system (iv) Centralized import customs clearance (v) Prior Information, Arrival, Presentation and Temporary Storage (vi) Warranty Management.

c. Activities planned in 2024

- a. Implementation of the Regional Action Plan for the establishment of the Common Regional Market, in cooperation with the CEFTA Parties, by drafting of regional documents for implementation of actions in the 4 pillars of regional integration, (i) free movement of goods, (ii) free movement of services, (iii) movement free capital and (iv) free movement of people, including cross-cutting measures.
- b. Implementation of the Action Plan of the NCTF.
- c. Encouraging well-known international brands to invest or operate in Albania.
- d. Implementation of Open Balkan Initiative.

2. *Results indicators*

Indicator	Baseline (2019)	Intermediate target	Target
Share of the Albanian exports to CEFTA parties	16,3%	20%	20%
Waiting time at the border crossing point for clearance of goods	1,5 hours ³²	1 hour	1 hour
Validation of Albanian Authorised Economic Operators at CEFTA level	0	4	8

3. *Expected impact on competitiveness*

Orientation of our foreign trade policy with the trade partners is based on addressing the problems and obstacles faced by our businesses such as: reduction of costs and tariffs related to import / export applied by other countries, removal of barriers to trade, harmonization of working hours of border agencies with

³² According to the study "Regional Report on Non-Tariff Measures in CEFTA"

neighbouring countries, etc. Removing this obstacle, will boost the Albanian competitiveness in regional a, EU and other markets.

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.

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

Increasing the Albanian competitiveness will generate job creation and internationalization of Albanian products.

6. Expected impact on the environment and climate change

This measure is not foreseen to have an impact on the environment.

7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Delays at the approval of CEFTA Drafts Joint Committee Decision due to political issues	High	Regional level

5.2.6. Energy market reforms

a. Analysis of main obstacles

The energy sector plays a key role in the economic development of the country. Hydropower accounts for the largest share of the country's electricity generation, representing around 95% of the Albania's installed power capacity. This means Albania's energy mix has one of the highest shares of renewable energy in South East Europe; however, it is also highly dependent on annual rainfall. The consequent vulnerability to climatic externalities for electricity production creates notable fluctuations in domestic energy production which is not able to meet demand; Albania is therefore, on average, a net energy importer. Energy imports restrict economic growth considerably, have a negative effect on the country's trade deficit and leave the country open to supply shocks.

The balance of electricity exchange (import) for 2020 in total is 3,238 GWh, in supply it results in the amount of 963 GWh and in receiving 2,276 GWh. The production of electricity at 5,313 GWh was realized by the power plants owned by the public production company (KESH Company) in the amount of 3,090 GWh and the rest of the 2,222 GWh was produced by other plants. As perceived from these figures, the share of production realized by independent private producers of electricity, occupies a considerable part in domestic production. 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. In relation to the increase of generation capacities and with the establishment of the Electricity Power Exchange by using the contracts for differences, their financial effect for electricity customers shall be optimized.

The demand for electricity in 2020 reached the value of 7,589 GWh. Compared to 2019, there is a slight decrease in electricity consumption in the country by 23 GWh. The decrease in demand observed formerly and also in the course of this year, it is mainly related to climate change, energy efficiency or the extension for the implementation of measures (from the installation of the energy metering system for each customer to the provisions of the criminal code for theft of electricity) to reduce electricity theft and mainly related to the measures approved by the Albanian Government on restrictions regarding the spread of the pandemic starting from March 2020. These measures among other things, have reduced the demand for electricity as several businesses were obliged to work with restricted hours or to close completely. In this context, electricity losses in the distribution system for 2020 according to data reported by the company, reach the value of 21.48%, marking a slight decrease in the level of losses compared to the value of 21.79% in 2019, a trend that will continue even in the upcoming years, since at this point, the level of losses is mostly related to investments in the distribution grid.

For 2020, the total electricity losses in the distribution and transmission system according to the reports of the companies have been in the values of 1,632 GWh, with a reduction by 19 GWh compared to 2019.

Regarding the establishment of the Albanian Power Exchange, the transmission system operators of Albania and Kosovo*, as founding shareholders, on 23.10.2020 established the company ALPEX, which will work to realize the day-ahead market coupling. The establishment of this market shall improve the electricity security of supply, for both countries, and the integrity of the markets significantly influence on the increase of electricity sale competition in the wholesale market and as consequence may bring the decrease of the electricity prices in the retail market.

Regarding market opening, with Order of Minister of Infrastructure and Energy No 28 of 18.01.2021 "On the approval of the roadmap for market opening and deregulation of electricity prices" a roadmap on market opening and process deregulation was approved, which foresees that starting from 1 January 2021 all consumers connected to 35 kV and a part of consumers connected to 20 kV will be supplied through a deregulated market and price (phase 1) and starting from 1 January 2022 all consumers besides 0.4 kV will be supplied with deregulated prices. The entry into the unregulated market of electricity customers is closely related to the quality of service provided by the DSO S.A as well as the allowed performance indicators. One of the main elements for controlling the monitoring of voltage quality and performance indicators of the electricity distribution network is the installation of smart metering in clients as an obligation of OSSH S.A. in accordance with article 78 "Intelligent metering systems" of the Law no 43/2015 "On power sector" as amended. Pursuant to this article, significant investments are required in both information systems and terminal equipment. Although during the years 2019 - 2020 two pilot projects for smart metering have been implemented, with promising and positive results, the challenges faced by the company in recent years starting from the unfavourable hydrological situation, the consequences of 2019 earthquake and the impact of Covid-19, have forced the company to deviate and reduce investments in order to provide energy for all users.

Renewable sources and energy and energy Efficiency

The Government of Albania recognises the key role of the energy sector in the economic development of the country. Albania is therefore giving new impetus to energy reforms while also consolidating existing efforts to both provide enabling conditions for renewable energy development and comply with its regional and international commitments. While the market has witnessed considerable advances in recent years, GoA is now more determined than ever to step up the investments that will shape the energy future, establishing a clear strategic roadmap for renewables.

Sustainable economic growth is a key component of the country's sustainable economic and social development agenda, and the contribution of the energy sector plays an increasingly critical role. Energy security, sector sustainability and assuring energy supply at competitive prices are some of the key challenges the country needs to address in the near future. These challenges can be met by further increasing the share of renewable energy in gross final production and diversifying the electricity sector in the country. Albania is in an excellent starting position for the Green Agenda, with an energy sector based entirely on hydropower without carbon emissions. Electricity market reform is on track.

Renewable Sources

In recent years, the Albanian government has taken commendable steps in the promotion of non-hydro renewable energy use. In its 2018 National Energy Sector Strategy, Albania stipulated a 42% share of renewable energy in total primary energy supply (TPES) by 2030. Also, Albania's National Renewable Energy Action Plan (NREAP) sets forth renewable energy targets till 2021 and in going forward, the NREAP will be superseded by the National Energy and Climate Plan (NECP), which is still to be developed and will set out renewable energy targets to 2030. The diversification of electricity production has advanced further recently promoting alternative sources of renewable energy (wind and solar) through private investments and auctions.

Active renewable energy policies in addition to hydropower plants date back to 2017 with the adoption of Law 7/2017 "On promoting the use of energy from renewable sources." This law is harmonized with law no. 43/2015, "On the electricity sector" and fully reflects the possibility of entering the liberalized electricity market of generators from renewable sources. The National Action Plan for RES (2018–2021) which, in addition to measures within the legal framework, defines the methodologies for setting the purchase price of energy through "Financial Support Schemes" as a direct commitment of the Government to achieve the National Objective.

To achieve the objective, regulated tariff permits for these sources and methodologies for RES electricity purchase prices have been approved. Actually MIE has drafted a new Strategy of moving from the existing

schemes “Feed-in-Tariff” (FiT) to “Feed-in-Premium” (FiP tariff) that basically consist on the transformation of FiT in Contract for Difference (Auctions) which will be implemented through the Operator of Renewable Energies, FTL and ALPEX that will serve as an incentive for added produce capacities from sun and wind. Diversification of electricity generation has recently advanced further by promoting alternative sources of renewable energy (wind and solar) through private investment and auctions.

On this regard, two solar auctions have been developed, during 2020-2021 with a record low price Karavasta for the construction of a 140 MW solar PV plant in Lushnja and Spitalla auction for the construction of a 100 MW solar PV plant in Durres. The Ministry of Infrastructure and Energy has announced a competitive process for wind electricity generators with a total capacity of 100 MW. Additionally, the Ministry of Infrastructure and Energy is opening a competitive process for Hybrid PV Auctions with an installed capacity of 5 – 10 MW, for a total capacity of 50 MW.

It's important to be mentioned that the costs of measures placed in the Plan (Reflected in ERP 2021-2023, Tab 10b) are not paid by State Budget. Based on the legislation in force, the Priority Producers will be paid by OSHEE GROUP.

Energy Efficiency

Energy efficiency plays a major role in the National Energy Strategy, in particular, two short and medium term policies have been considered: increase of energy savings and reduction of greenhouse gas emissions. One of the main objectives was the diversification through construction of renewable energy sources and energy efficiency measures, to achieve the political and macroeconomic security of energy production. Reducing Energy consumption by increasing energy efficiency is a highly successful way of meeting the key energy policy targets of security of supply, affordable costs of Energy services and environment sustainability. Within 2021 will be drafted and approved some ordinances of Minister remained from the secondary legislation based on the law on energy efficiency³³ and the law on the energy performance in buildings³⁴.

Regarding the costing of energy efficiency measures, it may be mentioned that MIE is in the process of drafting the National Energy and Climate Plan, which will replace the National Action Plan for Energy Efficiency which should be active for 2022-2024 according to the legislation in force. The year 2021 was a year of transition in terms of efficiency reforms until the approval of the new plan mentioned above. The Plan should include an extensive energy efficiency chapter.

The Ministry of Infrastructure and Energy has reviewed the existing Law No 124/2015 of 12.11.2015 “On energy efficiency” The revised law “On Energy Efficiency” no. 28/2021, adopted on 08.03.2021 is fully aligned with 2012/27/EU Directive. The secondary legislation related to the amended articles of the above law has not commenced yet. Establishment of energy efficiency financial mechanisms is a prerequisite for additional expertise and financing opportunities for measures and projects in the field of energy efficiency in Albania.

The methodology for EPC is in place and it is actually in use from Energy Audits certified by AEE. Agency for Energy Efficiency is estimating the audit reports.

b. Reform measures

Reform measure 13: Liberalization of the energy market

1. Description of measure

Developing an organized electricity market and the integration of the Albanian electricity market with the wider regional energy markets and finally the internal energy market in the EU. The aim is to create a market that generates, transmits and consumes electricity efficiently, as well as a market that leads to higher profits, organized according to the EU model, which is guided by the principles of transparency, non-discrimination and sustainable in the long run, based on competitive prices.

Liberalization of the energy market and, in parallel, the creation of the power exchange are two integrated projects that help each other. Regarding the establishment of the Albanian Power Exchange, amendments made in 2018 to the power sector law introduced a new deadline and conditions for the setup of the Power Exchange. While the sub legal acts (Decision of Council of Ministers No 322 of 15.05.2019 “On the set up and legal form and capital structure of the market operator” and Decision of Council of Ministers No 609 of 11.09.2019 “On defining the criteria and procedures for the selection of shareholders in market operator

³³ Law No.124/2015

³⁴ Law No 116/2016

capital”) completed the necessary legal base for the set-up of the market operator in Albania. The competitive selection procedure of participants in the market operator’s capital was suspended due to COVID – 19 and June 29 2020 was the new deadline for the submission of proposals.

On 23.10.2020 the transmission system operators of Albania and Kosovo*, as founding shareholders, established the company ALPEX, which will work to realize day-ahead market coupling. The Albanian power exchange company ALPEX, which is responsible for setting up these markets both in Albania and in Kosovo*, is currently tendering for a service provider of electronic trading platforms and corresponding services. After two unsuccessful attempts, ALPEX has launched a third tender which is suspended due to a complaint. The day-ahead market in Albania should be operational after nine months, and the coupling with Kosovo* should commence 11 months upon signature of the contract with the successful bidder.

Regarding market opening, with Order of Minister of Infrastructure and Energy No 28 of 18.01.2021 “On the approval of the roadmap for market opening and deregulation of electricity prices” a roadmap on market opening and price deregulation was approved, which foresees that starting from 1 January 2021 all consumers connected to 35 kV and a part of consumers connected to 20 kV will be supplied through a deregulated market and price (phase 1) and starting from 1 January 2022 all consumers besides 0.4 kV will be supplied with deregulated prices. The entry into the unregulated market of electricity customers is closely related to the quality of service provided by the DSO S.A as well as the allowed performance indicators. One of the main elements for controlling the monitoring of voltage quality and performance indicators of the electricity distribution network is the installation of smart metering in clients as an obligation of OSSH S.A. in accordance with article 78 “Intelligent metering systems” of the Law no 43/2015 “On power sector” as amended. Pursuant to this article, significant investments are required in both information systems and terminal equipment. Although during the years 2019 - 2020 two pilot projects for smart metering have been implemented, with promising and positive results, the challenges faced by the company in recent years starting from the unfavourable hydrological situation, the consequences of 2019 earthquake and the impact of Covid-19, have forced the company to deviate and reduce investments in order to provide energy for all users.

The 400 kV interconnection line between Albania and Kosovo was completed on 28.06.2016 and on 20.04.2020, the new connection agreement between Kosovo’s transmission system operator (TSO) KOSTT and ENTSO-E was successfully concluded by the Regional Group of Continental Europe (RGCE). After the vote, and then the signature, KOSTT and the Republic of Kosovo gain energy independence from Serbia and Independent Operation as a Regulatory Zone, within the Kosovo – Albania Regulatory Block. On 14.12.2020, the Connection Agreement between KOSTT and the transmission system operators (TSOs) from Continental Europe entered into force marking the first day of operation of KOSTT as a control area within the joint control block with the Albanian TSO, OST. In addition, the new 400 kV line between Kosovo and Albania is now in operation contributing to further cross-border exchanges.

The construction of Skavica Hydro Power Plant is an important step towards increasing energy security, reducing electricity imports and increasing efficiency and energy production from other hydropower plants of Drini River Cascade. The Albanian Government will build with 100% state funding HEC Skavica, finally completing the scheme of exploitation of Drini River Cascade.

Skavica Hydropower Plant, like the other three hydropower plants on the Drini River Cascade, will be operated by the Albanian Power Corporate (KESH).

In the framework of the Memorandum of Economic Cooperation for Projects and Purchases between the Albanian Government and the US Government, the Minister of Infrastructure and Energy, and the representative of Bechtel, signed the Memorandum of Understanding for Cooperation related to the HPP Skavica Project.

With Law No 38/2021 of 23.03.2021 “On determination of the special procedure for the negotiation and execution of the contract with the company “Bechtel International, Inc”, for the design and construction of the Skavica Hydropower Plant” foresees the special procedure for the negotiation execution and approval of the contract with “Bechtel International, Inc” or its affiliates for the design and construction of the Skavica Hydropower Plant based on the preliminary expression of interest deposited at the Ministry of Infrastructure and Energy.

The contract with Bechtel is divided in two phases. The contract of the first phase, approved with the Decision of Council of Ministers No 485 of 30.07.2021 includes preliminary activities which will enable Bechtel to submit a proposal to the Contracting Authority for the contract of the second phase and will help the

Contracting Authority and the Council of Ministers of Albania to provide the financial support for the project. The contract of the second phase consist in designing and building Scavica hydropower.

a. Activities planned in 2022

- Further Liberalisation of the electricity market (consumers in the free market)
 - a. installation of smart metering in clients which is still in process by the DSO
 - b. preparation of 20kV network by turning it into a SMART network, replacement of 6 /10kV overhead networks that are out of technical standards and their replacement with cable network with length and sections in accordance with these standards.
 - c. Planning of electricity networks in active form (where energy has two directions) which comes as a result of energy injection by users / producers in the distribution network. The planning of these investments brings as a consequence the demand to implement quality indicators, and consequently the entry into an unregulated market. The deadlines for the implementation of quality indicators are not related to the deadlines for the unregulated market entry of non-household customers, but may determine an exit trend in an escalated manner according to the areas with the highest load / consumption.
- Operation of the Albanian Power Exchange – ALPEX Security of Supply.
- Implementation of the project Elbasan (Albania) - Bitola (RNM) 400 kV interconnection line: Lot 1 & Lot 2.
- Skavica Hydropower Project.
- Further reduction of distribution losses.
- Further increment of bill collection rates.

b. Activities planned in 2023

- Further Liberalisation of the electricity market (consumers in the free market)
- Implementation of the project Elbasan (Albania) - Bitola (RNM) 400 kV interconnection line: Lot 1 & Lot 2.
- Skavica Hydropower Project.
- Further reduction of distribution losses.
- Further increment of bill collection rates.

c. Activities planned in 2024

- Further Liberalisation of the electricity market (consumers in the free market)
- Implementation of the project Elbasan (Albania) - Bitola (RNM) 400 kV interconnection line: Lot 1 & Lot 2.
- Skavica Hydropower Project.
- Further reduction of distribution losses.
- Further increment of bill collection rates.

2. Results indicators

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
Reduction of energy imports	1,143 GWh	1,184 GWh	
Domestic Production (KESH + Existing HPP + PP)	6,730 GWh	6,875 GWh	
Reduction in technical and non-technical losses in the network	19.6% ³⁵	19.0%	18.5%
Increased bill collection	95 % ³⁶	-	-

3. Expected impact on competitiveness

Strengthens the interconnection links with the regional electricity network, creating conditions for trade exchanges and unrestricted transit of electricity in the region. The further liberalization of the energy market,

³⁵ DCM No. 253, dated 24.04.2019 "On the approval of the financial consolidation plan of the public power sector", as amended

³⁶ DCM No. 253, dated 24.04.2019 "On the approval of the financial consolidation plan of the public power sector"

which will lead to decentralization of the energy power system, will have direct positive impacts on competitiveness by enabling the participation of the private operators in the electricity market and will increase the quality of supply. This reform measure will increase considerably the investments and contribute to job employment and competitiveness and will also allow the decrease the cost of energy for consumers.

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

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). In support of this point, the estimated cost for the completion of 400 kV Interconnection line Elbasan (Albania) – Bitola (RNM), Albania's part is 70 million EUR Financed in the amount of EUR 50 million from a foreign loan; EUR 15 million from a grant and EUR 5 million from OST sh.a (including VAT.).

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

This reform measure contributes to job employment and competitiveness and will also allow the decrease the cost of energy for consumers. This reform measure will indirectly contribute to job creation 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.

6. Expected impact on the environment and climate change

Taking into account the type of the project, the impact on the environment is inconsiderable.

7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Obstacles may arise during expropriation, procurement and licencing process for the 400 kV interconnection line project between Albania and RNM, as well as technical impediments.	Medium	Better monitoring, evaluation and coordination with all stakeholders through all stages of the project. Raising relevance of the reform measure.
Lack of capacity and coordination among institutions	Low	Better monitoring, evaluation and coordination with all stakeholders.

Reform measure 14: Diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements

1. Description of measure

This reform measure aims to contribute on the diversification of the sources through the promotion of renewable energy production beyond hydropower and energy efficiency improvements, as an important tool of energy policies of Albania, for the increase of the security in energy supply, in a sustainable way and environmentally friendly.

The measure is in line with Energy Policy of Albania, National Strategy for Development and Integration (2015-2020), National Energy Strategy (2018-2030), international agreements (Paris Agreement, UNFCCC etc.), the current National Action Plan for Renewable Energy Sources (2019-2020), and the National Energy Efficiency Action Plan of Albania (2017 – 2020).

The establishment of ALPEX (Energy exchange Market) and its functioning will change the relationship between market participants by avoiding bilateral relations between them. In this context, every company that operates in the energy market based on the relevant license obtained from ERE will sell or buy its product through the exchange market which orients the prices that will not be fixed but based on the liberalised market (EU Market) and consequently will contribute to increase the competitiveness between them.

Moreover, within this reform, further efforts has been taken to move from the existing schemes “Feed-in-Tariff” (FiT) to “Feed-in-Premium” (FiP tariff) that basically consist on the transformation of FiT in Contract for Difference (Auctions), that is a new incentive scheme of financial support for RES as provided by Law 7/2017.

Photovoltaic Plant of Karavasta

Based on the Decision of Council of Ministers No 349 of 12.06.2018 and the objectives of the National Consolidated Renewable Energy Action Plan (NCREAP) 2019 – 2021, the Ministry of Infrastructure and Energy completed the bidding procedure for selecting the developer of the project for the construction of a photovoltaic plant in Remas – Karavasta (close to Lushnja area) with an installed capacity of 140 MW, where 70 MW, as part of the support measures (for this capacity there will be a PPA for 15 years) and 70 MW which will not be part of the Support Measures. The winning bidder offered a price of 24.89 euro/MWh, for 15 years. The winner was announced on May 2020. Furthermore, in 2020 was signed the Project Agreement and PPA which is under implementation. Actually, the bidder is in process of collecting the permits in accordance with the Contracts signed.

Photovoltaic Plant of Spitalla

The Ministry of Infrastructure and Energy completed also the bidding procedure for the construction of Spitalla PV Plant during November 2020, with an installed capacity of 100 MW (70 MW, as part of Support Measures and an additional of 30 MW which are not part of Support Measures) in the area of Spitalla, Durres district. The winner offered the price of 29.89 Euro/MWh. The Project Agreement and PPA which are under implementation were signed in June 2021. Actually, the bidder is in process of collecting the permits in accordance with the Contracts signed.

Additional photovoltaic and wind generators

The Ministry of Infrastructure and Energy has announced a competitive process for wind electricity generators with an installed capacity from 10 MW to 75 MW. Through this bidding procedure, the Ministry will select projects with a total capacity of 100 MW which will benefit from support measures. The contracting authority may later decide to increase the total tendered capacity up to 150 MW. Potential bidders should identify and propose suitable locations for the design, financing, construction and operation of the eolic parks. Actually, MIE is in process of collecting the applications until June 2022. The winner will be elected in June 2023.

Additionally, the Ministry of Infrastructure and Energy is opening a competitive process for Hybrid PV Auctions with an installed capacity of 5 – 10 MW, for a total capacity of 50 MW.

Through this measure is aimed the implementation of EE improvements in public and private buildings, households, industry, transport etc. Building sector is expected to contribute largely to national energy savings increase. Investments on energy efficiency are ongoing through state Budget and Foreign Financial Aid projects through donors. State budget has raised the contribution in this field for 2022-2024. As above mentioned, the amended Law in Energy efficiency will contribute in achievements on energy savings target, furthermore considering the big investments to be made for the post-earthquake reconstruction process, through added mechanisms, including an Energy Efficiency Obligation scheme foreseen. The adoption the secondary legislation that derive by the Law No. 116/2016 on “Energy performance of Buildings” will improve the energy efficiency and increase savings in the new buildings in general through the audits reports in place in accordance with the regulations approved, implementing the minimum criteria of energy efficiency in new buildings, through incentives from local government for individual investments in EE measures in residential sector and through the finalisation of some feasibility studies that are in process from AEE.

a. Activities planned in 2022

- Preparation and approval of secondary legislation based on the law on the promotion of the use of energy from renewable sources (MIE/AKBN/FTL/OSSH/FSHU/OST/ERE): Construction phase of Karavasta 140MW PV Plant”.
- Implementation of the Spitalla Project for the construction of the PV plant with the capacity of 100 MW (Contract and permit signing phase).
- The first hybrid auction in wind power for 35 to 75MW each for a total capacity of up to 130 MW.
- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval for the construction of new electricity generation capacities; (MIE / AKBN).
- Pilot project for the construction of a building with "0 Energy" (continued).
- Complete feasibility study for the installation of Charging Towers for electric cars in the Republic of Albania (continued).

- Project idea on Electrification of urban and intercity transport lines in the Municipalities of Tirana, Vlora, and Durrës (continued).

b. Activities planned in 2023

- Implementation of the Project “Karavasta PV Power Plant 140MW” (Construction Phase).
- Implementation of the Project of Spitalla PV power Plant of 100 MW (Construction Phase).
- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities; (MIE/AKBN).
- Pilot project for the construction of a building with "0 Energy".
- Complete feasibility study for the installation of Charging Towers for electric cars in the Republic of Albania.
- Project idea on the Electrification of urban and intercity transport lines in the Municipalities of Tirana, Vlora, Durres. (In stages).

c. Activities planned in 2024

- Implementation of the Project “Karavasta PV Power Plant 140MW” (Construction Phase).
- Implementation of the Project of Spitalla PV power Plant of 100 MW (Construction Phase).
- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities; (MIE/AKBN).
- Pilot project for the construction of a building with "0 Energy".
- Urban and Street lighting standards in the Republic of Albania.
- Complete feasibility study for the installation of Charging Towers for electric cars in the Republic of Albania.
- Study report/supervision on the Electrification of urban and intercity transport lines in the Municipalities of Tirana, Vlora, Durres. (In stages).

2. Results indicators

Indicator	Baseline (2022)	Intermediate target (2023)	Target (2024)
% of electricity generated from PV solar plants and wind turbines	1%	1.5%	10%
Energy saves from measures (pilot projects) in energy efficiency sector	5 %	6%	7%
Energy efficiency audit reports / Building Performance certificate	22000	30000	35000

3. Expected impact on competitiveness

The energy sector is entering into an era of significant transformation due to increase penetration of renewables. Diversification of energy sources (renewables) will have direct positive impact on increasing competitiveness as a result of using new energy sources (solar and wind) that will increase the domestic production of the energy in Albania's market. As renewable power generation technologies have matured and their costs are decreased, there is a growing shift towards auctions. In Albanian market with limited volumes on offer, this has led to intense competition for projects and has resulted in falling costs of the energy prices (Akernia auction 59.9 Euro KWh and 24.89 Euro/MWh for Karavasta 70MWp).

Promotion and incentive measures on renewables sources will contribute in the increase of security of energy supply in the country and will forced developers to implement best practices in terms of project development, utilise newer innovative technology solutions, and generally reduce margins.

The results of the energy saving and efficiency will have direct positive impact on increasing competitiveness by making possible the reduction of energy consumption and lower costs as a result of savings.

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

To ensure the achievement of the national target of RES consumption (38%) in 2020, authorisations with regulated tariffs for these sources have been approved and methodologies for RES purchase prices have been adopted. The law preserves concession contracts for small hydropower plants previously approved up to 15MW. Also as a need for diversification, are considered promoting other sources of renewables such as Eolic or PV, beyond hydropower. In any case, the Law provides the possibility of financial support with regulated

feeds (feed-in-tariffs) and under the Feed-in-Premium Contract, both for existing and young priority producers, as well as new producers after the end of 2017 when contracts that were not subject to concession began to operate under a procedure approved by DCM no. 822 dated 7.10.2015 as amended. According to NREAP, the total investment for the RES and EE sector (the new targets) for 2021-20230 will be part of the new Action Plans (NECP) that will be in place within the first quarter of 2022.

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

Renewable sector will have direct social and economic impact by contributing in the improvement of employment opportunities. Renewable energy has increased the number of employees in a variety of capacities, including project development, construction, installation, operations and maintenance, transportation and logistics, financial, legal, and consulting services. In the industrial sector, highly qualified staff with appropriate professional qualifications (auditors and ESCO companies) will also be recruited, who will be continuously engaged in the monitoring of consumption and proposing of new measures for achieving savings. Gender equality is making steady progress in every field of economy as well as in renewables industry. The number of women in business roles exceeded that of women heading human resources, which signals a shift in the types of responsibilities women are now assuming. In Albania, there are no legal requirements that specifically target the participation of women on boards of companies. However, for several reasons it seems an accelerate rate at which companies increase participation by women in the field of renewables and Energy Efficiency. Strategic priorities address the health service needs of all communities and population categories. Better access of vulnerable communities to health care services will be achieved through a better horizontal integration of different specialized professionals, working at community level.

6. Expected impact on the environment and climate change

GoA is taking actions to proceed with the preparation of the Integrated Plan of Energy and Climate taking into account climate change adaptation. National climate change adaptation strategy is adopted by July 2019. Albania signed the Paris Agreement on 22 April 2016, entering a new era of the international climate policy process. Albania joined the United Nations Framework Convention on Climate Change (UNFCCC) in 1995 and the Kyoto Protocol in 2005 and has begun the process of changing the status of a developing country to a developed one, in the context of the UNFCCC.

Most renewable energy sources produce little to no global warming emissions. Wind, solar, and hydroelectric systems generate electricity with no associated air pollution emissions. In addition, wind and solar energy require essentially no water to operate and thus do not pollute water resources or strain supplies. Energy production from renewable installation does not contribute in carbon gas emissions. Energy efficiency measures are an important tool to reduce CO2 emissions through the savings in all sectors, industry, residence, transport etc. The correlation between CO2 emission reduction and the RES &EE measure will be part of the NECP document to be adopted by the end of 2021. The access to affordable and reliable energy in accordance with SDG#7 while increasing the share of renewable energy in the global energy mix. This would involve improving energy efficiency and enhancing international cooperation to facilitate more open access to clean energy technology and more investment in clean energy infrastructure. Access to energy is a very important pillar for the wellbeing of the people as well as economic development and poverty alleviation through the increase of global percentage of renewable energy and the improvements in energy efficiency.

7. Potential risks

There are foreseen risks in the realisation of the reform through the implementation of projects and finalisation of the legislative framework in support of diversifying sources of energy supply through the increase of the energy production from PV and wind, financed by donations, state budget approved (in some cases) and “Free Market Supply” SA etc. There might be a general risk due to the necessary interplay between all relevant stakeholders. Delaying on the approval of secondary legislation; The lack of a financial instrument whereas projects will be implemented from the state budget and some from Foreign Financial Instruments (IPA Funds); Delays on the approval of PBC DCM; EEA not fully equipped in staff; Delays on projects activities (Procurement phase etc.), Delays in authorisation and construction phase of the PV and Wind projects due to the abovementioned phenomena and due to COVID-19 postponed procedures.

Risk	Probability	Planned mitigating action
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	(low, high)	
Prolongation projects activities	medium	Regular monitoring of the implementation of the activities. (Should be mentioned the delay on construction of renewable plants in process of authorisation or based in prolongation of contracts for auctions due to legal issues)
Delay in adoption and approval of secondary legislation.	low	Using EU technical assistance for a better and efficient legislation approximation in accordance with new developments in energy market. Delays due to the global Covid- 19 situation

5.2.7. Transport market reforms

a. Analysis of main obstacles

The Albanian railway network operates below its actual capacity, due to lack of investment, maintenance operations, and outdated network, where it fails in ensuring that no poor/very poor maintenance section in the core transport network. The unbundling of train operations from infrastructure management has been achieved, under the applicable legislation of the rail incumbent separation. The main obstacles in the railways:

- Insufficient alignment of numerous policy documents by Albanian railways administration, management and internal control, under the transversal priority actions, and priorities for railways;
- Vague implementing of objectives, targets, and planned actions and soft measures; due to failure of presenting sound financial economic development programme, since not in compliance to the OECD methodology, slow implementation of the National transport plan 2nd review (ANTP3);
- Lack of measurable, reportable and verifiable indicators; due to the M & R program with EU;
- Lack of ex-ante evaluation of the eventual environmental effect of the identified disputes;
- Different technologies and know-how of these technologies; partial module of the AFMIS, lack of CoreDa_RAILDATA on calculation of the standing hours for the trains in the Joint CBP; etc.
- Expropriation of land, under the review of the Bank methodology and future decision DoCM.

Implementing legislation is in the transition phases under legal provisions for the establishment of relevant structures and agencies, in particular, the Railway Regulatory Authority, Railway safety authority and National Investigation Authority for railways and maritime.

Maritime infrastructure is underdeveloped with inadequate capacity. The low quality of its transport infrastructure has affected the country's integration into regional and global supply chains and has a direct impact on the development of tourism and transit services.

The proposed measure on transport sector will help curb these issues, as well as help increase economic growth and competitiveness of the country. Master plan Order on the integrated port system, is in place by National Agency for spatial planning (AKPT) from 14.10.2020). Relocation of commercial activities to another location (Romano port in an economic zone of Spitalle, of Durres Municipality and transform the Port of Durres into a touristic port have been announced.

Given that Albania is moderately prepared with the PAR reform of its public and state administration relevant also for railway strategic sector as in the applicable legislation, it enhances for the transport sector, the integration of human resources management systems which are still a lack in deployment for railways. It made some progress was made in building capacity in line ministries to implement regulatory impact assessments, adopting guidelines for public consultations, setting up the IT systems for integrated planning, increasing the implementation rate of the National European Integration Plan, increasing the number of e-services, and completing the testing phase to automate the payroll system. Implementation of the 2015-2022 public administration reform (PAR) and the 2014-2022 public financial management (PFM) reform strategies has continued despite the impact of the pandemic.

Parliament adopted on 1 July 2021 the legal package with regard to the institutional framework, establishing the independent Railway Regulatory Authority, Railway Safety Authority, and the National Investigation Authority on Rail and Maritime, for a total of four laws. The laws entered into force on 20 August 2021.³⁷

³⁷ (i) Law No. 88, date 01.07.2021 for establishing National safety authority; (ii) Law No. 91, date 01.07.2021 for establishing, organisation and functioning of the National Investigation Authority for rail and maritime; (iii) Law No. 89, date 01.07.2021 for establishing Railways Regulatory

*b. Reform measures***Reform measure 15: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana***1. Description of measure*

The major objective of this strategic reform is to further develop the national transport system on the basis of cleaner, safer, smarter, greener, more resilient and competitive mobility, and in addition, significantly improve its sustainability, interconnection, interoperability and wider integration with the Western Balkans region to the Single European rail area and the international transport system. The integration of public transport services is aiming by rail and combined transport at the intramodality, with urban transport, road-rail, waterborne/maritime, air, and logistics value chains, through the digitalization, decarbonisation and automation. Improving the ecological basis in the transformation of the Albania's transport system toward the EU Railway system, promotes the clean transport system and railway subsystems, establishing in a single market to the European transport area, with the climate neutral technologies, our integration into energy saving systems and the EU value chain, submission of EU Green agenda targets for the green freight transport and noise-off by rail. Strengthening development and innovative research capacities and respond quickly to risks gives an innovative transformation towards competition and demonstration of EU integration and feasibility. The main digital technologies with electronic components boost in the marketing / branding service. Intelligent networks and services support technological development in the connectivity of the region, as in the national transport sector strategy and action plan for period 2001-2025 under the adoption.

The measure is a top priority which accrued from the action plan of the NTS 2016-2020, (RAIL priority action nr. 6), and with the revisiting of the new national transport sector strategy and action plan, there is a particular need for greater multi-modality, as in its financing and action plan of the Transport sector strategy 2021-2025, where the soft measures of this rail priority in our structural reform emphases in fact the development from the combined transport. The intermodal transport dimension is ensured through the ERP 2022-2024, with the ferry terminal passengers from ports and mobility by rail in the hinterland toward the airports, Tirana. Interoperability specifications procured interfaces the hard measure reform, and railway functional and operational subsystems. All major investments interlinked as in the SSPP, at major success factor for the Rehabilitation and construction of the railway segment Durres-TIA- Tirana is a must to an accurate realisation of this strategic reform.

a. Activities planned in 2022

- a. During 2022, rehabilitation of works will be carried out in the main section from Durres to Tirana PTT and construction of the new railway line up to Tirana International Airport will start. The Project is foreseen to be finished and handed over at the end of the reporting period (PIU HSH).

b. Activities planned in 2023

- a. Construction activities are only foreseen in the Defects Liability Period, which will last 12 months (PIU HSH). The rail link to Rinas airport 5 km, shall complete the triangular railway intersection, which is prone to expropriations and a land LAP.

c. Activities planned in 2024

- a. The project shall be completed in 30 Months, and it is interconnected to the interchange point Vora, with the synergy project which is the other strategic project funded by the EBRD, Vora to Hani Hoti.

2. Results indicators

Indicator	Baseline (2018)	Intermediate target (2023)	Target (2047)
Outcome Indicator 1 - Million passengers/year	0.75881	1.1741	1.25
Outcome Indicator 2 - Tons/year	198,900	51,100	250,000
Outcome Indicator 3 (tons/year) - Reduced CO2 emissions	0	486	486

vs. cars			
Project Specific indicator 1 - Car-km removed from road per year	0	8,700,000	8,700,000
Project Specific Indicator 2 - Truck-km removed from road per year	0	138,000	138,000
Cross sector indicator (# in millions) - Total number of beneficiaries	0	2,9	2,9

3. *Expected impact on competitiveness*

The measure is a priority strategic project that will give prosperity and development to the citizens' transport facilities among the largest cities of Albania. The Tirana – Durrës railway project and the connection with TIA complete and fully achieve the multimodality of the infrastructure network between the two metropolises, creating an efficient network between the road infrastructure, the airport and the Port of Durrës. The project will have a great economic and social impact on cluster building in the growing region Tirana-Durrës. Providing the region with a well-functioning railway line will be an advantage, beneficial for both companies already settled as well as for potential local and foreign investors.

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

The project has a total estimated cost of EUR 90.45 million. 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 institutional capacity through an EBRD grant 0.87 mln EUR.

A grant from WBIF-EU of EUR 35.435 million comprising of 32.935 mln EUR for civil works and 1.5 mln EUR for supervision and 1 mln EUR for ESIA implementation and project management and the tendering documentation amounting of 1,215 mln EUR totalling 36.65 mln EUR is already given for this important project. In addition, Land expropriation (1 mln EUR) and VAT (15.06 mln EUR) is part of the state budget (over EUR 16.06 million). 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 2022-2024 and increasing value from 1 Mn Euros to 3 Mn Euros with the Land acquisition plan update (LAP, 2021). Initial evaluation methodology (LAP, 2019) is revisited.

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

Albanian railways at the Community of European Railway and Infrastructure Companies (CER), representing railway sector employers, and the European Transport Workers' Federation (ETF), representing railway workers, officially involved to signed the Women in Rail autonomous agreement aimed at promoting employment of women in the sector.

The railway community adopted the agreement, leading to the final stage of the process, with the official signing of the agreement which marks its entry into force. This agreement aims to attract more women to the rail sector and give women more protection and guarantee equal treatment in the workplace thanks to numerous measures agreed under the headlines of general gender equality policy. These measures cover areas such as targets, how to attract more women to the sector, reconciling work and private life, promotion and career development, equal pay, health and safety and work environment and prevention of sexual harassment and sexism.

On gender equality, the implementation of the national strategy and action plan 2016-2020 on gender equality is followed up by a new strategy on gender equality 2021-2030 adopted in June 2021.

State of implementation for the structural reform, gives access more and more to woman in railway, gender balance is ensured for all positions and vacancies, consultation/adoption decision-making.

Women are expected to benefit from the incentives with a new salary regime, in preparation, with the EBRD consultancy of the EU technical assistance.

As a result, substantial overall net socio-economic benefits generated, as indicated by the socioeconomic performance indicators of the project calculated by the respective 2015 CBA conducted in line with the EU Guide for cost-benefit analysis of 2014 (based on costs and benefits expressed in monetary terms):

- ERR = 7.43%

- ENPV = 29.52 million euro
- B / C ratio = 1.17.

Transition Impact: The Project includes sector reform and institutional strengthening measures in the following areas. Results on socio-economic appraisal according to the CBA accrue per outcomes:

- 4,100 man-years of employment created during construction of the project – corresponding to 1,375 new equivalent full-time employment positions of 3-years duration.
- 2,200 new full-time equivalent employment positions of duration of 27 years (incl. in the 30-year reference period of the CBA, after completion of construction of the rail section Tirana-Durres and the rail to airport) created in the operation and maintenance of the railroad on Albania.

Impacts in Green Economy: the provision of high-quality rail services which is fundamental for the development of sustainable transport systems which reduce CO₂ emissions in line with national and EU transport policy targets. The project is providing the IC inception report and Labour Audit, and providing of new organisational structure of the PIU and IM under the new law of separation.

6. Expected impact on the environment and climate change

The objective is to reduce the negative environmental impact of road traffic between Durrës, Tirana and TIA, and contribute to the reduction of CO₂ and local air pollution from road traffic in the Durrës-Tirana region. A parallel objective of the project is to introduce an eco-friendly mode of smart mobility, provision of the ISO certificate for the 1st time for the Beneficiary Albanian railways, which demonstrates that the Infrastructure manager is certified for the environmental standards with regard to continuous contribution to the decarbonisation, by decreasing the traffic congestion from the congested highway / motorways among Durres, Tirana and Rinas airport and by further contributing to EU green deal improving air quality and preserving the nature in the Project area / cluster region.

Measures will be put in place to reduce energy consumption and costs per unit of transport service.

Developing multi-modal transport solutions by focusing on energy-efficient and environmental-friendly modes of transport is ongoing. For that reason, Albanian railway is included in the National Medium Term Energy Efficiency and the Renewable Energy Plan RES.

Measures are put in place to improve the share of rail transport and inland waterways since both can be eco-friendly modes of transport (if fuelled by renewable energy) and promote the regional cohesion.

Impacts in Green Economy: the provision of high-quality rail services which is fundamental for the development of sustainable transport systems which reduce CO₂ emissions in line with national and EU transport policy targets.

Environmental considerations are taken into account (e.g., the train is environment friendly and measures for reducing noise of train in urban areas and for minimizing cut-off of areas are underway). According to the CBA, the following additional benefits (calculated on the basis of parameters that can be expressed in monetary terms) accrue from project implementation – measured in terms of ENPVs during the 30-year reference period of the analysis 2017-2043, calculated on the basis of SDR equal to 5% (at constant prices):

- Savings in road vehicle operating costs: 69.6 million euro.
- Savings in cost of time of travel / transport: 55.1 million euro.
- Savings in cost of traffic accidents: 30.2 million euro.
- Savings in environmental costs: 34.7 million euro.

Measures taken to ensure sustainability (institutional, financial, environmental sustainability):

These measures impact the landscape (e.g. Planting trees on the sides of Tirana -Durrës- Rinas;), land (e.g. Operation line maintenance is limited as much as possible points; there is access road avoiding the passage of vehicles on the ground agricultural), water (e.g. Mitigation: Surface/groundwater pollution) air (e.g. Gas and dust emissions), noise (e.g. Mitigation: Vibrations), Biological environment (Mitigation: Impact of area fauna) etc.

7. Potential risks

Risk	Probability (Low/High)	Planned mitigating action
Urban territory and spatial planning and bottlenecks to permissions	Low	The proposed design gave special attention to the access of the neighbouring land uses and properties as well as to the pedestrian and road connection.

Inability to negotiate the settlements.	Low	Negotiated settlements are encouraged to help avoid expropriation and eliminate the need to use governmental authority to remove people forcibly.
Service defects (e.g. rail breaks) per mile per year.	Medium	Constant monitoring, increased testing (ultrasonic testing - UT) and improved inspection efficiencies.

5.2.8. Agriculture, industry and services

a. Analysis of main obstacles

Agriculture sector, as main sector of the economy has experienced a gradual increase in the past few years up to 2.5 billion EUR in 2019. The sector's contribution to total economic gross value added (GVA) has been stagnating toward 20% of the country's GVA, while its contribution to employment have gone down by 10% percentage points in the last decade.

Around 45% of total farms lie in the category of 0-1 hectare (as arable land), 41% of farms have a size of 1.1-2 hectares and only 14% of farms have a surface area of more than 2 hectares. The average farm size is slightly more than 1.2 Ha.

Agriculture in Albania employs 47.8% of the total of active population. It contributes to 20% of the country's GDP. Albanian agriculture is dominated by a large number of very small and fragmented farms. More, than 65 553 farmers were equipped with a Tax Identification Number NIPT at the end of 2020.

The sector faces several obstacles:

- Small-scale farming: is very high and represents one of the main constraints towards ensuring financial viability of the farms. Moreover, the limited farm size is also hindering the farms from accessing direct payments, cheaper inputs, loans etc.;
- High risk of migration: the income remains substantially below as compared to the average wages in the largest cities in Albania;
- Land ownership issues: important obstacle in the process of farm consolidation, thus in achieving economic viability;
- Lack of advanced knowledge on farming, access to new technologies and expensive access to inputs (sometimes even at a poor quality) and loans (for both production and investments);
- Farmer organization weakly organized;
- Agriculture digitalization very rare;
- Poor level of mechanization;
- Difficult access to credit and high interest costs;
- Lack of knowledge of small food producers in hygiene and food safety standards, improving product quality and diversifying food products to meet consumer demands;
- Lack of touristic products, which generate direct social and economic benefits for the local population and communities;
- Very low number of certified accommodation facilities in rural areas;
- Small and fragmented farm sizes are unfavourable conditions for on-farm investments in agro tourism;
- EU quotas impact the fishery sector.

Covid-19 pandemic has greatly affected tourism in Albania. The official data for 2020 show that 2.657.818 foreign tourists visited our country, compared to 6,406,028 in 2019, a 58.5% decrease.

According to the World Travel and Tourism Council 2021 publication, during 2020, the tourism sector recorded a total contribution of \$ 1,561.3MN, accounting for about 10.6% of GDP. Compared to 2019 data there is a decrease of 51.6% which is even higher than decrease in the global data (-49.1%) Also, in terms of employment, the total contribution of travel and tourism for 2020 was 194,600 jobs or 17.5% of total employment in Albania. Also, the revenues from the tourism sector for 2020 registered at Euro 989 million. Compared to previous year (2019) revenues from incoming tourism decreased by 53% due to COVID 19 consequences as well as 2019 earthquake.

In the face of the crisis caused by the pandemic, in addition to financial support packages and decision-making regarding monetary and lending policy presented by the Albanian Government where among the main

beneficiaries were individuals and businesses from the tourism sector, the Ministry of Tourism and Environment undertook a series of immediate, short-term measures in support of coping with the situation caused by the pandemic such as: online application for the categorization process by the subjects and facilitation of the procedure; online application for exercising the activity as beach station, drafting safety protocols in cooperation with the Ministry of Health to be implemented by accommodation structures and other entities operating in the tourism sector etc.

In these conditions, 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. 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.

Also, “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.

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.

b. Reform measures

Reform measure 16: Better marine and maritime governance and services

1. Description of measure

Regarding the compliance of the reform with the general plans and policies for the development of the sector, this reform is in line with the National Strategy for the Sustainable Tourism Development 2019-2023, as well as with the government program 2017-2021 for the consolidation of ports and marinas. Also, the General National Plan of the Territory sets as a strategic priority the increase of the number of tourist marinas in accordance with the physical capacity of the Albanian coast in order to develop an elite coastal tourism sector that respects the environment and physical characteristics of the natural and urban landscape of the Albanian coast. Like the General National Plan of the Territory, the Integrated Cross-sectorial Plan of the Coastal Zone (PINS Bregdeti) defines as an objective the development of tourist ports (marinas) in support of the development of the tourism sector.

This reform measure seeks to amend, align and complete the current legislation and procedures, to create a regulatory framework that is modern, in line with EU regulations and tailored to the needs and distinct characteristics of the Blue Economy. The certification of maritime tourism operators will enable the provision of maritime tourism activities such as: sailing for tourist and entertainment purposes, surfing, recreational diving, windsurfing, water skiing, wakeboarding, water motor, tourist fishing etc. only by licensed maritime tourism operators, this way having a positive impact in maritime tourism service standards and security. It also has a positive effect in the promotion of competitiveness by setting clear standards and rules for all the entities operating in the sector.

The Albanian government is applying an integrated approach to utilise the development potential of maritime tourism. Another initiative undertaken in this regard is the adoption on 14 May 2020, by the Parliament of the amendment to Law No 92/2014 of 24.07.2014 “On value added tax in the Republic of Albania” as amended, which grants an exception from the obligation to pay a 20% VAT on imported tourist pleasure boats, which are no more than 20 years old. This amendment to the Law aims to:

- rebuild an Albanian flotilla of environmentally friendly tourist pleasure boats;
- extend the flotilla with the Albanian flag;
- stimulate marina infrastructure development.

a. Activities planned in 2022

- a. Finalization of the legal framework on maritime tourism activities

In April 2020, the Albanian Parliament approved the Law No 43/2020 of 23.04.2020 “On activities of maritime tourism”. This law sets out the rules, conditions and criteria for activities in maritime tourism, tourist vessels and entertainment purposes, the necessary infrastructure needed for their exercise, as well as institutional responsibilities in this field. Besides the legal acts drafted and approved in 2021 other supplementary legal framework deriving from this law will be drafted, such as: DCM “On the establishment of criteria and functioning of seasonal anchorage stations”. Also it is planned the drafting of the Law “On integrated management of coastline” (MTM, MIE). The drafting of the legal framework will continue during Q1 2022.

b. Certification of maritime tourism operators

This will be a well-regulated and very transparent process that will create the conditions to further develop the sector, improve the quality and establish high safety standards. The operators have to demonstrate compliance of their equipment and devices with the provisions of the legislation and the appropriate professional education. This will be an on-going process that will reflect and address the market needs for maritime services. (MTE, MoI, MIE).

c. Promotion of maritime tourism sector

This activity comprises support for different promotional activities in different municipalities, organization of international activities etc. (MTE, National Tourism Agency, LGAs).

b. Activities planned in 2023

a. Certification of maritime tourism operators (MTE, MFE)

b. Promotion of maritime tourism sector

This activity comprises support for different promotional activities in different municipalities, organization of international activities etc. (MTE, National Tourism Agency, LGAs).

c. Increase human resource capacities.

To encourage cooperation and promote vocational training related to maritime tourism professions. (MTE, MFE, LGAs)

c. Activities planned in 2024

a. Certification of maritime tourism operators (MTE, MFE).

b. Promotion of maritime tourism sector.

This activity comprises support for different promotional activities in different municipalities, organization of international activities etc. (MTE, National Tourism Agency, LGAs)

c. Increase human resource capacities.

To encourage cooperation and promote vocational training related to maritime tourism professions. (MTE, MFE, LGAs)

2. Results indicators

Indicator	Baseline (2020)	Intermediate target (2022 or 23)	Target (2025)
Number of certified maritime tourism operators	0	*5	20
Number of yachts visiting the ports and their number of port touches	441-entries & 423-exits (yachts/tourist boats)	*1136-entries & 1091-exits (yachts/tourist boats)	3000
Number of employees on maritime tourism sector	N/A	+ 400	1000
Number (inventory) of tourist vessels.	N/A	+ 2000	2000

**reporting values are for the period January-August 2021*

3. Estimate impact on competitiveness

This reform will contribute to the reduction of informality and to enabling better quality services in the maritime tourism sector. Setting and implementing clear rules and regulations will further encourage and promote competitiveness among businesses operating in the sector within the country as well as in the regional level. It will strengthen human capacities as a crucial precondition towards growth.

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

The source of financing is from state budget (no additional costs).

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

Maritime tourism in Albania is among the sectors with widespread economic benefits, but with untapped potential. In addition to the revenue that are expected to be generated in direct servicing, nautical tourism generates myriad indirect benefits in employment and income as the success practices of neighbouring countries show. As a result, a positive effect is expected in terms of increased investment, and consequently employment and budget revenues. Other sectors related to tourism will also increase, mainly fuel suppliers, importers of spare parts, professional courses for a number of job positions. Economic impacts are expected to particularly affect public authorities and small and medium-sized businesses.

6. Expected impact on the environment and climate change

Among other things, in drafting the legal framework for maritime tourism activities, international maritime conventions have been reviewed and taken into account, such as: UNESCO Convention for the Protection of the Underwater Cultural Heritage, Convention for the Protection of Marine Life and the Mediterranean Coast, The International Convention on Marine Search and Rescue, the International Convention for the Prevention of Ship Pollution.

The new legal interventions aim to keep in control the pollution caused by maritime navigation activities due to the increasing degree of control brought about by the regulatory intervention.

7. Potential risks

Risk	Probability (low, high)	Planned mitigating action
Non-preparation and non-approval of bylaws in accordance with the provisions of the law, which are mainly related to lack of experience.	Moderate	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 experts.
Covid-19 pandemic hampering efforts to push the reform ahead	Moderate	Careful planning of the calendar of activities taking into account the alternating work between the physical presence and the online one, as well as close cooperation with partner institutions.

5.2.9. Education and skills

a. *Analysis of main obstacles*

Inclusion has been the focus of education policies in Albania during the last decade, aiming at increasing participation in education in early childhood, as well as participation in education of children from vulnerable groups. The participation in pre-university education of children with disabilities has increased from year to year. This particularly applies to mainstream schools, where the number of children with disabilities has increased from 2,849 during the 2013/14 academic year to 4672 during the 2020/21 academic year with about 79% of these children attending basic education, 10% of them going to pre-school education and the rest participating to upper secondary education. Meanwhile, 541 children with disabilities attend classes in special schools. Progress has been made with the improvement of learning of Albanian Sign Language for increasing the education quality of students, who cannot hear, until their secondary education.

Despite MES commitment to providing inclusive education for all children, but some important foundations have yet to be laid for the participation of all children with disabilities and insuring that all schools have meet all inclusion standards, the necessary number of support teachers, psycho-social services, and disability equipment/ infrastructure and disability assessment.

The Republic of Albania has a network of 3,582 pre-university educational institutions, of which 3,113 are public and 469 are private (scholar year 2020-2021). In the last years, a clear trend has been noted - reduction of the number of children/students in all levels of pre-university education, which is the result of the resident population reduction, fertility decrease and migration etc. Albania has a considerable number of small schools with joint classrooms where students of different grades study together as well. In this regard, rationalisation of schools needs to be further addressed.

Further development of multi-sectorial early childhood education policies is needed for coordinating activities in this area. In the area of public services and infrastructure, local government units are responsible for the management and regulation of the pre-school education system in kindergartens and nursery schools. Referring to paragraph 12, article 23, Law No. 139/2015, as amended, local government units are responsible for the management and regulation of the pre-school education system in kindergartens and nursery schools. Meanwhile, preparatory classes are under the responsibility of the Ministry of Education and Sports.

Improvement of the school infrastructure is of special importance in the Albanian State policies. During 2018 and 2019, capital expenditure of the former MoESY reached ALL 6.52 billion (~ EUR 53 million). The November 26, 2019 earthquake has caused significant damage to the school infrastructure. According to available data, 321 different education institutions in 11 municipalities were affected by the earthquake, of which 76 had to be demolished, 75 could be repaired, and 170 suffered minor damage. In addition to infrastructure, physical assets, such as furniture, laboratories, libraries, etc., were damaged. The greatest damage occurred in Tirana and Durrës municipalities, where 55% and 21% of school buildings were affected respectively. It is deemed that the necessary budget for reconstructing and repairing school infrastructure, damaged by the earthquake, should be EUR 94.83 million, of which EUR 54 million were invested in 2020, while EUR 39 million to be invested in 2021 and 2022. The former MoESY has approved standards for the design of schools and kindergartens, which will serve as a reference for the people involved in the planning, programming, design and construction process of new school facilities/premises or the rehabilitation of existing buildings. Nevertheless, a challenge for infrastructure investments could be budgetary shortages for the education system imposed by the expected economic reduction, as a consequence of the COVID-19 pandemic and damages caused by the 2019 earthquake.

Regarding education quality, Albania has seen consistent and substantial improvements in science, reading, and maths.

According to the PISA 2015 report, the increase in PISA results (between 2009 and 2015) in maths and science is equivalent to the knowledge that pupils gain in one year of schooling, and in reading, to half a year of schooling.

The results of PISA 2018 also show improvement in maths compared to the results of 2015, no improvement in reading, and a decrease in science by 10 points. Underachievement in education, as measured by the percentage of 15-year-old students performing below level 2 at PISA mathematics proficiency test, has improved from 67.7% in 2009 to 42.4% in 2018. Although improvement has been consistent in PISA results since 2000, results are low compared to OECD economies.

During the 2019-2020 school year, the implementation of the competency-based curricula included all grades of basic education and upper secondary education. The implementation of the curriculum is associated with challenges that address the ongoing support of further professional development of teachers in areas such as: student assessment, meeting the needs of students with special needs, use of ICT, etc. Improving communication between stakeholders and the role of school leaders in implementing competency-based curricula are aspects that need to be further improved and supported.

Further development of digital competence is one of the objectives planned to be part of the National Education Strategy 2021-2026. The information and communication technology (ICT), which includes computers, tablets, smartphones, interactive tables and other accessories, may have a positive impact on improving teaching quality, increasing motivation and improving student performance, by ensuring that all students are able to obtain certain levels of digital competence to meet the knowledge requirements of 21st century societies. In the case of unforeseen situations, such as pandemics or natural disasters, ICT provides opportunities to organize distance learning, whereas, in normal situations, technology may be utilized to advance the teaching process in schools.

Some of the main challenges for achieving this goal are the insufficient number of ICT equipment in schools and Limited access to ICT devices and Internet in specialized labs in schools. Opportunities to utilize the devices in classes are very limited, due to the lack of projectors, of the wireless network and other dedicated accessories. Internet use by children may also have positive outcomes in their learning results and social

inclusion, but it may also expose them to the dangers of the virtual world. Measures aiming the protection of children and youths from online violence, abuse and exploitation are also important.

b. Reform measures

Reform measure 17: Support the implementation of pre-university curricular reform and teacher training

1. Description of measure

The competency-based curricula is implemented in all grades 1 through 12 of the pre-university education system. With the changes that occur in society, new needs appear, new relationships in society and in the labour market, greater investment in human capital, technological innovation, new human aspirations, new strategies for development, etc. The curriculum responds to these changes at a fast pace, with internal quantitative and qualitative developments, to enable new knowledge, skills, values and attitudes appropriate, systematic, coherent and constantly evolving, which are transmitted to students through their teachers. The curriculum implementation process has been accompanied by strengthening of teachers and principals' capacities in the effective implementation of the reformed curriculum. In order to achieve this goal, special emphasis was placed on teacher training, professional network of teacher's empowerment and encouragement, as a mechanism that supports teachers' professional development and improves the quality of the curriculum implemented in school. Internal and external evaluation of the curriculum and the factors that impact it, are considered to be a very important process to continuously monitor and evaluate the quality of curriculum design and implementation.

Regarding the professional development of teachers, the functioning of professional networks of teachers has continued according to the relevant profiles or according to the roles of teachers in the school. Teachers and school leaders must attend at least 3 days of training per year from authorized providers, among which ASCAP is central.

Teachers have the opportunity to share experiences and reflect through "professional development networks", which are organized regularly and where school staff can share their challenges and achievements. The reason why networks work is because teachers see them as a place where they can share their concerns and achievements.

Harmonization of the initial training curricula on higher education programs based on the requirements of the Law on Higher Education as well as with the curriculum provided in pre-university education is an important measure. This process should be used to adapt the curricula, in line with the best international practices, in particular with EU recommendations establishing a fair balance between the subject content, pedagogical component and integrated practical work integrated into the study program. In accordance with these recommendations, programs for initial teacher training should provide future teachers with the key competencies needed for quality teaching, but also motivate them to further develop these competencies in the course of their careers. In particular, these programs should pay attention to training future teachers to develop key cross-curricular competencies in students, such as: digital competence, learning-to-learn competence, entrepreneurial competence, and literacy. Teachers should also be trained to work with different groups of students, including students with disabilities and children who are part of vulnerable groups.

Pursuant to the government program for including of English language in the first grade, the basic education plan was reviewed and approved. English language is included in the compulsory curriculum for the first grade and the second foreign language is included in the core curriculum in sixth grade. English language program for the first grade is designed and approved. Training of the English teachers will be provided based on the training modules.

The arts and crafts program is a program that aims to include arts and crafts in education by encouraging the teaching of arts and crafts in pre-university education through practical activities. This program is designed to serve and support the development of children and young people in basic and upper secondary education. "Arts and Crafts Education" includes creativity, innovation and taking on initiatives, activities and projects that take place in schools in collaboration and partnership with parents, the community and local businesses. It aims to foster students' entrepreneurial skills in the perspective of preserving and promoting the values of the community where they live, as well as our cultural heritage.

Activities for the implementation of the program "Education for arts and crafts" can be planned in the annual school plan, which can be developed out the learning process and their realization fulfils the purpose of the

school for the development of practical skills of students. In this case students choose to participate voluntarily.

This measure is correlated to the Economic Criteria, to be competitive in EU which requires a sufficient amount of human capital, education, research, innovation, and future developments in this field.

a. Activities planned in 2022

- a. Including of English language in the first grade
- b. Drafting of training modules for "Learning English since the first grade of basic education"
- c. Training of 1000 first grade teachers and monitoring the continuity of work for the implementation of the English language program.
- d. Harmonization of HEI curricula of initial training on education programs based on the requirements of the Law on Higher Education as well as with the curriculum offered in pre-university education.
- e. Development of training modules based on the professional standards of the teacher and in coherence with the new curriculum.
- f. Drafting a teacher career system based on the evaluation of teacher performance in school.
- g. Drafting a guide for the development of education for Arts and Crafts in pre-university education.
- h. Drafting and approval of standards of the director of kindergartens.

b. Activities planned in 2023

- a. Training of 1000 second grade teachers and monitoring the continuity of work for the implementation of the English language program.
- b. Completion of the process of harmonization of the curricula of the initial training of HEI teachers based on the requirements of the Law on Higher Education as well as with the curriculum offered in pre-university education.
- c. Discussion and finalization of the draft of the teacher's career system based on the evaluation of the teacher's performance in the school.
- d. Strengthening human capacities in the curriculum sectors at the level of Local Education Offices.
- e. Training of 700 leaders of professional networks of lower secondary education on the guideline of development of education for Arts and Crafts.
- f. Drafting and approval of the framework for evaluating the quality of services in preschool education.

c. Activities planned in 2024

- a. Improving students' skills in language and communication, mathematics and science.
- b. Approval of the teacher's career system based on the evaluation of teacher performance in school.
- c. Strengthening human capacities in the curriculum sectors at the level of local education offices.
- d. Training of 500 network leaders on the guideline and development of education for Arts and Crafts.

2. Results indicators

Indicator	Baseline (2022)	Intermediate target (year) 2023	Target (year) 2024
English teachers trained	0	1000	1000
Initial training curricula harmonisation	0	70% education programmes in HEI	100% education programmes in HEI
Training of head of professional networks on arts and crafts guideline	0	700	1200

3. *Expected impact on competitiveness*

In the long run - according to studies like the OECD PISA study that make a link between better outcomes in basic skills and economic development of countries - improving teacher quality increases outcomes in basic skills, which enables this generation of students to be prepared better for the job market: either as an employee or job creator.

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

Year	Activity	Estimated cost	Source of financing
2022	Including of English language in the first grade (texts for pupils of the first grade 2022)		Midterm Budget Planning 2022-2024
	Drafting of training modules for "Learning English since the first grade of basic education"	700 Euro	State budget
	- Training of 1000 first grade teachers and monitoring the continuity of work for the implementation of the English language program.	12 000 Euro	State budget
	- Harmonization of the curricula of initial training of higher education programs on education based on the requirements of the Law on Higher Education as well as with the curriculum offered in pre-university education.	ASCAL	Erasmus+, budget European Union
	- Development of training modules based on the professional standards of the teacher and in coherence with the new curriculum.	35 000 Euro	State budget
	- Drafting a teacher career system based on the evaluation of teacher performance in school.	3 000 Euro	State budget
	Drafting a guideline for the development of education for Arts and Crafts in pre-university education.	3 000 Euro	State Budget
	- Drafting and approval of standards of the director of kindergartens.	2 000 Euro	State budget
2023	Training of 1000 second grade teachers and monitoring the continuity of work for the implementation of the English language program.	15 000 Euro	State budget
	- Completion of the process of harmonization of the curricula of the initial training of HEI teachers based on the requirements of the Law on Higher Education as well as with the curriculum offered in pre-university education.	ASCAL	State budget
	- Discussion and finalization of the draft of the teacher's career based on the evaluation of the teacher's performance in the school.	3 000 Euro	State budget
	- Strengthening human 300 capacities in the curriculum sectors at the level of DRAPs and SPOs, and	3 600 Euro	State budget
	- Training of 700 leaders of professional networks of lower secondary education on the guideline of development of education for Arts and Crafts.	8 400 Euro	State budget
	- Drafting and approval of the framework for evaluating the quality of services in preschool education.	2 000 Euro	State budget

2024	- Improving students' skills in language and communication, mathematics and science	5 000 Euro	State budget
	- Approval of the teacher career system based on the evaluation of teacher performance in school.	3 000 Euro	State budget
	Strengthening human capacities in the curriculum sectors at the level of DRAPs and SPOs, and training of 500 network leaders for the guide and development of education for Arts and Crafts.	6 000 Euro	State budget

- For ASCAP, for the period 2022-2024 in the table are included the planned funds in the detailed activities as above: in 2022 are foreseen 55,700 Euro x 123 lekë = 6,851,000 lekë, in 2023 are foreseen 32,000 Euro x 123 lekë = 3,936,000 lekë, and in 2022 are predicted 55,700 Euro x 123 lekë = 6,851,000 lekë.

Activities foreseen for the Ministry of Education are costed as follows;

- In 2022, the funds provided to cover the costs of teaching, teaching English to first graders for about 150-160 teaching staff, as well as covering the cost of textbooks where it is expected to benefit free textbooks about 28- 30 thousand students with about 30 million ALL.
- In 2023, the funds provided to cover the costs of teaching, teaching English to first and second grade students for about 300-320 teaching staff, as well as covering the costs of textbooks where textbooks are expected to benefit about 58-60 thousand students for free with about 60 million ALL.
- In 2024, the funds provided to cover the costs of teaching, English language teaching for first grade students, second grade and third grade for about 450-480 teaching staff, as well as to cover the cost of textbooks where they are expected to benefit free textbooks for about 85-90 thousand students with about 90 million ALL, beneficiaries' students from first grade to third grade.

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 during implementation of the reform measure.

6. Expected impact on the environment and climate change

The reform measure is neutral as regards the impact on the environment.

7. Potential risks

Risk	Probability	Planned mitigating action
Collaboration with Higher Education Institutions on harmonization of initial training	Medium	Implementing a specific Action plan with HEI and MES institutions working on the harmonization of the initial training teaching programs process.
Using the evaluation of the teacher's performance in the school base on the career from the school leaders	Low	Training all the School leaders
Implementation of the unified curriculum by ASCAL in the education faculties	Medium	Accreditation of revised teaching programs

Reform measure 18: Inclusiveness and equality in education

1. Description of measure

The reform measure aims to provide inclusive education by further increasing the number of support teachers for children with disabilities in mainstream public schools and further reducing the number of students attending high-class, low-quality classes. Efforts have been made to organize and train assistant teachers in professional networks.

Inclusiveness has been the focus of education policies in Albania in the last decade, aiming to increase participation in early childhood education, as well as the participation in education of children from vulnerable groups. Teaching in joint classes takes place in rural areas and remote areas. For years MES has pursued a policy of closing collective classrooms, bringing together small schools to relocate students from those classes to schools where teaching takes place in separate, larger classrooms, and providing transportation for these students. This intervention has ensured the provision of a better-quality education for students in rural areas. Currently, every child living over 2 km from the nearest school receives free transportation. An increase of +50% of the amount of transport reimbursement is foreseen to happen during 2022.

From year to year, the number of children who have benefited from the free textbook program has increased. In the scholar year 2021-2022 students attending basic education in public educational institutions first to 9th grade are included in the policy of 'free textbooks'. According to decision no. 486, dated 17.06.2020 there are also 18 categories that benefit from free textbooks in secondary schools: students who in basic education belong to the category of national minorities, those who have received orphan status, students who come from families who are treated with economic assistance and unemployment benefits from employment offices, students with disabilities, students admitted to the Oncology Service, students belonging to Roma and Egyptian minorities, etc.

MES is planning to transform Special Schools/institutes into resource centres supporting the education of children with disabilities and their social integration. Transforming a special education school / institution into a resource centre is a process that goes through several stages addressing changes in structure, management, teaching and specialized staff, curriculum, infrastructure, etc. This measure is correlated to the Economic Criteria, to be competitive in EU which requires a sufficient amount of human capital, education, research, innovation, and future developments in this field.

a. Activities planned in 2022

- a. Analysis of the legal basis and models of other countries on the functioning of resource centres.
- b. Drafting of administrative acts on the functioning of resource centres.
- c. Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students.
- d. Drafting and standardising of work protocols for psycho-social service.
- e. Training of 42 ToT (heads of professional networks of assistant teachers) and assistant teachers.
- f. Strengthening the professional networks of psycho-social service employees.
- g. The rationalization of the school network.
- h. Improving the free transport service for students and teachers (*Increase of +50% of the price of pupils' transport reimbursement*)

b. Activities planned in 2023

- a. Transforming of special schools to resource centres*.
- b. Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students.
- c. Equipping schools with technology tools and programs to help children with disabilities
- d. Training of 42 ToT (heads of professional networks of assistant teachers) and assistant teachers.
- e. Training of professional networks of psycho-social service employees.
- f. The rationalization of the school network.

c. Activities planned in 2024

- a. Full functioning of special schools to resource centres.
- b. Equipping schools with technology tools and programs to help children with disabilities.

2. Results indicators

Indicator	Baseline (2021)	Intermediate Target (2022)	Target (2024)
Number of additional assistant teachers for pupils with special needs	1275 (2020-2021)	1300	1350

Number of staff in the psycho-social service in schools	526	630	700
Number of children in collective classes transferred to better quality schools nearby	2829 pupils	(2020) +250 referring to the base assessment	(2022) +500 referring to the base assessment

3. Expected impact on competitiveness

In the long run, by providing better educational opportunities multi-grade classes and children with disabilities will increase their chances of achieving the skills needed to join the job market and lead independent lives as well adults.

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

- Training of 42 ToT (heads of professional networks of assistant teachers) and assistant teachers are foreseen 2,000 Euros per year.
- Strengthening the professional networks of psycho-social service employees for about 600 psycho-social employees expected to be trained is foreseen a fund of 9000 Euros per year.
- Improving the free transport service for students and teachers by revising prices and criteria and categories in need, (an increase of + 50% of the amount of transport reimbursement to be provided for around 30-32 thousand student beneficiaries with an estimated annual cost of 170 million ALL per year, cost which is indexed / increases every year). This activity is related to the calculation of transport service costs for basic education students that are expected to be covered by the state budget fund and will continue even after the completion of the reform.

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

The measure aims to create better opportunities, better inclusion, and better opportunities for children. Gender equality will be respected throughout the measure's implementation.

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
Reluctance on the part of families to allow their children to be transferred in nearby schools	Low	Supporting measures for children and parents. Cooperation with the community in this process.
Lack of sufficient funds to employ/hire assistant teachers	low	Annual budget planning.

Reform measure19: Development and empowerment of digital competency of teachers

1. Description of measure

ICT has greatly influenced the way educational services are provided, as it has the potential to provide students with lifelong learning, full participation in society and success in professional life. Achieving this goal dictates the development of students and teachers digital knowledge and skills. Students today live and grow in a digital world, yet they too need support in developing digital competence. The biggest challenge is for teachers. In addition to the digital competencies necessary for everyday life, teachers need specific digital competencies that enable them to use technology to support, improve and transform the teaching-learning process, as well as other responsibilities in school.

At European level, these competencies are included in a competency framework for teachers (European Framework for Digital Teacher Competence, DigComEdu). UNESCO has also drafted the ICT Competence Framework for Teachers (ICT CFT, version 3), as a document to guide teacher development in the use of ICT. The Ministry of Education and Sports, relying on the global trends in education today, has set the integration

of ICT and digitalization of education as a priority in the National Strategy on Education, 2021-2026. MES has planned designing and implementation of ICT programs for the first time year after year starting from class I in 2022, class II in 2023 and class III in 2024.

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. So far to develop digital skills have been realized:

- Approval of professional standards of teachers for the use of ICT in the teaching-learning process.
- Development of guidelines for the use of ICT in the teaching-learning process.
- Approval of modules and materials for teacher training.

About 1200 ICT teachers have been trained to use the [akademi.al](#) platform, as well as 5508 teachers to use online platforms in the learning process, 724 professional network leaders for the use of ICT in student assessment based on competencies.

Albania will continue investing in digital devices and internet access in schools. In view of this, the balance between investments regarding expenditures for devices and Internet access, and expenditures for technical maintenance should be ensured. This effort should be accompanied by providing devices in classes, by significantly increasing the number of computers that are fully functioning and usable by students in schools. Technically maintaining ICT devices through student clubs and the local educational structure is also crucial. Student clubs will be set up in schools, which, jointly with the informatics teachers, will ensure elementary technical maintenance of ICT devices, including software installation and update, device configuration, as well as prevention of minor defects. Special guidelines will be drafted for these clubs and training will be provided to teachers leading the clubs.

This measure is correlated to the Economic Criteria, to be competitive in EU which requires a sufficient amount of human capital, education, research, innovation, and future developments in this field.

a. Activities planned in 2022

- a. Design and approval of the information and communication technology program and its implementation in the first grade.
- b. ICT Teacher training for implementation of the programme in first grade
- c. Review of the existing grade IV program to include coding skills and its implementation in 2022.
- d. ICT Teacher training for implementation of the programme in fourth grade.
- e. Defining standards on ICT devices in schools.
- f. Investing in increasing the number of digital devices in schools.

b. Activities planned in 2023

- a. Design and approval of the information and communication technology program and its implementation in the second grade.
- b. ICT Teacher training for implementation of the programme in second grade
- c. Review of the existing grade V program to include coding skills and its implementation in 2023.
- d. ICT Teacher training for implementation of the programme in fifth grade.
- e. Training of 1200 professional network leaders on "Internet Student safety".
- f. Training of 1200 leaders of professional networks for the implementation of professional standards of teachers as well as for the use of ICT in the teaching process as part of combined education.
- g. Investing in increasing the number of digital devices in schools.

c. Activities planned in 2024

- a. Design and approval of the information and communication technology program and its implementation in the third grade.
- b. ICT Teacher training for implementation of the programme in third grade.
- c. Review of the existing grade VI program to include coding skills and its implementation in 2024.
- d. ICT Teacher training for implementation of the programme in sixth grade.
- e. Trainings for teachers and school leaders on teacher standards for the use of ICT in the pre-university education system through the professional networks.
- f. Investing in increasing the number of digital devices in schools.

g. Technically maintaining ICT devices through student clubs and the local educational structure

2. *Results indicators*

Indicator	Baseline (2022)	Intermediate Target (2023)	Target (2024)
Number of trained teachers (ICT in first, second, third grade)	500	1000	1000
Number of trained teachers (ICT in fourth, fifth, sixth grade)	0	500	1000
Training of leaders of professional networks on ICT	0	700	1200

3. *Expected impact on competitiveness*

The information and communication technology (ICT), which includes computers, tablets, smartphones, interactive tables and other accessories, may have a positive impact on improving teaching quality, increasing motivation and improving student performance, by ensuring that all students are able to obtain certain levels of digital competence to meet the knowledge requirements of 21st century societies and enabling this generation of students, in the long run, to be prepared better for the job market: either as an employee or job creator.

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

Year	Activity	Estimated cost	Source of financing
2022	Design and approval of the information and communication technology program and its implementation in the first grade	700	State budget
	ICT Teacher training for implementation of the programme in first grade	12 000	State budget
	Review of the existing grade IV program to include coding skills and its implementation in 2022.	700	State budget
	ICT Teacher training for implementation of the programme in fourth grade	12 000	State budget
	Defining standards on ICT devices in schools	1,382,114	State budget
2023	Design and approval of the information and communication technology program and its implementation in the second grade	700	State budget
	ICT Teacher training for implementation of the programme in second grade	12,000	State budget
	Review of the existing grade V program to include coding skills and its implementation in 2023.	700	State budget
	ICT Teacher training for implementation of the programme in fifth grade	12,000	State budget
	Training of 1200 professional network leaders on "Internet Student safety"	15,000	State budget
	Defining standards on ICT devices in schools	1,382,114	State budget
	Training of 1200 leaders of professional networks for the implementation of professional standards of teachers as well as for the use of ICT in the teaching process as part of combined education.	15,000	State budget

2024	Design and approval of the information and communication technology program and its implementation in the third grade	700	State budget
	ICT Teacher training for implementation of the programme in third grade	12,000	State budget
	Review of the existing grade VI program to include coding skills and its implementation in 2024.	700	State budget
	ICT Teacher training for implementation of the programme in sixth grade	15,000	State budget
	Trainings for 5000 teachers and school leaders on teacher standards for the use of ICT in the pre-university education system through the professional networks	60,000	State budget
	Defining standards on ICT devices in schools	1,382,114	State budget
	Technically maintaining ICT devices through student clubs and the local educational structure		

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 measure's implementation.

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 teachers trained with the relevant profile of ICT for primary education (for first, second, third, fourth, fifth grade)	Medium	More ICT students graduating in the teaching profile. Collaboration with the Higher Education Institutions. Action Plan on training the ICT teachers.
Budgetary difficulties on equipping all schools with internet connection	Low	Collaboration with AKSHI and local government responsible for school administration

5.2.10. Employment and labour markets

a. Analysis of main obstacles

During 2014-2021 Albania has made significant progress towards ensuring that both men and women have access to increased employment opportunities. The positive trend of the last few years continued throughout 2019 and the first quarter of 2020 across all labour market indicators. However, during 2020 the Covid-19 pandemic and the measures adopted to limit the spread of the virus affected the Albanian labour market. The impact of Covid-19 became more pronounced in Q2-2020, as reflected by the standard labour market indicators (employment, unemployment, and labour force participation rate). During the second quarter of 2021, the employment rate for the population aged from 15 to 64 is 60.7 %. During this quarter, the total number of employees increased by 1.0 % compared to the second quarter of 2020, and by 2.9 % compared to the first quarter of 2021.

In the second quarter of 2021, the labour force participation rate for the population aged from 15 to 64 is 69.0 %. The labour force participation rate is 0.9 percentage points higher compared to the second quarter of 2020 and it is also increased by 1.5 percentage points compared to the previous quarter. The women labour force participation rate is 60.9 %, whereas for men this indicator is 77.3 %. The men labour force participation rate is 16.4 percentage points higher than women. The labour force participation rate for women is increased by

0.2 percentage points and for men is increased by 1.6 percentage points compared to the same quarter of 2020. During the second quarter 2021, the youth labour force participation rate (population aged from 15 to 29) is 51.9 %. This indicator increased by 1.1 percentage points compared to the second quarter of 2020.

Despite employment rate having improved significantly in recent years, Albania lags European Union averages. The employment rate has improved significantly especially among women (from 40% in 2013 to 53.7% in Q2-2021). Nonetheless, gender inequality in employment remain problematic, with men's employment rate exceeding women's by 14.1%. The employment rate is increased for men by 1.6 percentage points and for women by 0.5 percentage points compared to the same quarter of 2020. The youth employment rate is 41.6 %. Despite an increase of 1.9 percentage points in 2021, youth employment 15-24 years lags behind the rest of the adult population, standing at an average of 41.6% in 2021. However, labour force participation rates also remain below EU averages, with a significant gender gap of 16%. In 2021, the youth participation rate (population aged from 15 to 29) continued to be lower than for the rest of the adult population (51.9%). This indicator increased by 1.1 percentage points compared to the second quarter of 2020, and by 1.7 percentage points compared to the first quarter of 2021.

In the second quarter of 2021, the official unemployment rate in Albania, for the population aged 15 years and over is 11.6 %. In annual terms, the level of unemployment decreased by 2.5 %, and compared to the previous quarter decreased by 1.9 %. In the second quarter of 2021, the official unemployment rate in Albania is 11.6 %. The official unemployment rate decreased by 0.3 percentage points compared to the second quarter of 2020, and the first quarter of 2021. The official unemployment rate is 11.8 % for males and 11.3 % for females. The unemployment rate decreased by 0.2 percentage points for men, and by 0.6 percentage points for women, compared to the same quarter of 2020. Youth unemployment has decreased from a peak of nearly 43% in 2014 to 26.5 % in the 2020 for the 15-25 age group. A high share of young people neither in employment nor in education and training (NEET), particularly among the most educated indicates a challenging labour market transition for young people.

The NEET rate for Albania in 2020 was 27.9, up from 26.6 in 2019 (INSTAT), more than double the EU-27 average (12.6%). In this group, 36.5% are classified as unemployed (INSTAT 2020)³⁸. The youth unemployment rate was 21.5% in 2019. However only about 18,000 NEET youth – out of a total of over 190,000 - are registered with the Public Employment Service and outreach needs to extend beyond this group representing less than 10% of NEET youth. Youth in Albania currently suffer from several challenges including a low employment rate of 21.5%, one of the lowest in the region.

5.2.11. Healthcare and Social protection

a. Analysis of main obstacles

Prevention and early diagnoses of tumoral diseases will continue to remain a priority in the field of public health. The goal is to expand the three existing programs Check Up, Breast Cancer and Cervical Cancer programs not only in regards to age group categories but also in regards to treatment therapies according to the best international standards. We aim that within 2025 HPV vaccine will be part of the National Program on Cervical Cancer an activity this that will be made possible through the close cooperation with the Public Health Institute and World Health Organization.

From 2013 until now, 214 new drugs have been included in the List of Reimbursement Drugs, and we have increased by 25% the dedicated funds for the reimbursement of drugs in the list, 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.

We have tripled the financing of drugs for the treatment of cancer patients and we now guarantee 100% free treatment with drugs for patients with breast cancer and blood malign cancer.

³⁸ The other part is outside the workforce either as discouraged workers (12.7%), or fulfilling domestic and family responsibilities (18.1%) or inactive for other reasons (32.7%) INSTAT 2020.

Within 2023 the aim is to transform the drafting of the List of Reimbursement of Drugs by shifting the focus from the reimbursement of the drug as a product to the reimbursement of the diagnoses treatment protocol, in order to better answer to the needs of patients, technological innovations in the Pharmaceutical Service. Track and tracing system for drugs will be another activity that will take place within 2023 with the aim of increasing drugs availability and guaranteeing a thorough monitoring of drugs that circulate in the Republic of Albania.

For the first time in 2018 was included in the reimbursement scheme also the reimbursement of medical devices. And since 2018 all children and youth until the age of 25 benefit for free the diabetes stripes.

With the aim of universal coverage for children 0 – 18 years old in 2019 was expanded the number of vaccines in the National Immunization and Vaccination Program by including the Rotavirus vaccine and the aim to continue supporting the strengthening of the Program in order to safeguard vaccination coverage at 98%.

Moreover we will continue our financial support for every family that brings in life a child with the dedicated program of Baby Bonus, from which from the start of the program in 2019 are around more than 100 thousand families that have benefited the financial bonus with the first trimester of the life of the new born.

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.

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.

During these 8 years we have invested in the modernization of our Obstetric and Gynaecologist Hospital network by starting with the civil works and new medical equipment at SUOGJ Koço Gliozheni, SUOGJ Mbreteresha Gelardine, the new Obstetric and Gynaecologist Hospitals in Berat, Kukes, Sarande, Lezhe, Korçe followed with major investments also in the Paediatric Hospitals of Mother Theresa, Durrës and Elbasan.

The aim is that within 2024 we will have established in 4 regional hospital poles that will be established at Referral Diagnostic and Treatment Centres as well as we will establish and make fully functional 10 centres of family medicine that will offer integrated social and health services focusing on mental health, services for children and youth as well as palliative care.

COVID 19 pandemic tested all the tiers of the system. With the support of WHO 4 strategic documents were prepared and became the guideline of our integrated approach to manage the pandemic and make sure that our public health system was able to grant access and on time health care service starting from prevention, diagnostic, treatment and vaccination.

At a record time we transformed into COVID – 19 hospitals 4 hospitals two of which were established for the first time as hospitals. We doubled the number of our ventilators and ICU units as well as we increased by four times our lab capacities for testing.

We allocated special financial support through the Bonus mechanism of 1000 Euro on top of the salary for all the medical personnel and 500 Euro on top of the salary for the supporting staff.

From March of last year until now around 4,000 medical staff have benefited the 1,000 Euro bonus and over 1,200 supporting staff have benefited the 500 Euro bonus on top of the salary.

The financial support for the medical staff and supporting staff will continue to be provided until the end of the pandemic of COVID – 19.

During this year of the pandemic we have invested and prepared the ICU units and infectious disease wards in all our 11 regional hospitals to be ready for any type of emergency.

During this mandate we will continue to guarantee and provide health services that are covered 100% by the state budget, starting from diagnoses through the strengthening of our public laboratory network with new medical devices and equipment's to guarantee in the public hospital sector all medical analyses, treatment through our dedicated package of the List of Reimbursement of Drugs for all patients that are infected by SARS – COV – 2 as well as a full treatment package according to the best international practice and protocols for all our patients who will need hospital treatment.

Within 2022 we will have completed the infrastructure modernization of our Infectious Disease Hospital at Mother Theresa Hospital Centre in Tirana that will guarantee not only a complete transformation of the hospital care provided for our citizens but also doubling of ICU units.

At record time we were able to guarantee around 3 million of vaccine dosages and until the end of the spring through COVAX mechanism and the direct contracting we have with the producers and authorized distributors we will guarantee 5 million doses to also start the application of the third dose and of children under 18 years of age upon recommendations of WHO and ICDC.

Health will continue to remain a public good and that is why until 2030 the aim is to increase public financing on health to 70% by guaranteeing that no Albanian family falls into poverty due to health costs.

During these 8 years we returned the dignity to our medical personnel. Today a doctor or a nurse that is employed in a public hospital has a salary 63% higher than in 2013. A general practitioner or a nurse at primary health care center has a salary 68% higher than in 2013. We will continue also during this mandate to implement our policy for the increase of wages up to 40% for the medical personnel.

Within 2025 we will complete the testing and modernization of our public laboratory network in 10 regional and municipality hospitals by guaranteeing an increase of 20% of the citizens that will benefit from the laboratory examinations, increase of diagnosing capacities in 10 municipality, regional and university hospitals through investment in medical equipment's, the establishment of 3 Regional Excellency Centers in the provision of care for Acute Ischemic Illnesses as well as major investments will also take place in the modernization of our mental health institutions.

5.3. Summary of reform measures

A) Reforms addressing the three key challenges

Key Challenge #1

Reform 01: Increasing the quality and access to VET

Reform 02: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services

Reform 03: Improving institutional, financial and human capacities for research and innovation

Key Challenge #2

Reform 04: Increasing the coverage and adequacy of social protection and health insurance to reduce the share of the population at risk of poverty

Reform 05: Increasing access to health care

Key Challenge #3

Reform 06: Strengthening the fight against informality

Reform 07: Developing a legal framework to support innovative start-ups

Reform 08: Support measures to MSMEs

Reform 09: Modernization of retail payment instruments

B) Reforms addressing other challenges

Public financial management

Reform 10: Public Strategic Investments

Digital transformation

Reform 11: Development of the broadband infrastructure for digital economy

Economic Integration

Reform 12: Deepening Economic integration

Energy

Reform 13: Liberalization of the energy market

Reform 14: Diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements

Transport

Reform 15: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana

Agriculture, industry and services

Reform 16: Better marine and maritime governance and services

Education and skills

Reform 17: Support the implementation of pre-university curricular reform and teacher training

Reform 18: Inclusiveness and equality in education

Reform 19: Development and empowerment of digital competency of teachers

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 2022-2024. Details of the budgetary implications of the reforms are found in table 10a and table 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) 2022-2024 cycle was officially launched by the European Commission on 24 June 2021 with the support of the Center for Excellence in Finance (CEF).

The preparation of the Economic Reform Programme (ERP) 2022-2024 was coordinated by the Ministry of Finance and Economy in close collaboration with 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, the Bank of Albania, General Directorate of Taxation, and INSTAT.

The Order of the Prime Minister no. 107, dated 6.8.2019 defines the framework for coordinating the ERP process at the national level and designates the Minister of Finance and Economy with the function of National ERP Coordinator. In addition, the order provides for the establishment of the high-level inter-ministerial group, and the inter-institutional technical secretariat tasked with the overall coordination from beginning until approval by the Council of Ministers. Institutional coordination has improved in several ways. A higher degree of ownership and institutional responsibility for the proposed reforms is aimed at, mainly as a result of defining the duties, functions and responsibilities of each reporting institution, based on the provisions of the order.

The ERP draft was posted on the website of the Ministry of Finance and Economy (link: <https://www.financa.gov.al/programi-i-reformave-ekonomike/>) with a view to garner interest from interested stakeholders and receive feedback. It was posted from 22 December 2021 until 31 January 2022. Moreover, in accordance with the provisions of law no. 146/2014 “On notification and public consultation” the draft Economic Reform Programme 2022-2024 was published in the national register for notifications and public consultations (accessible via the link <http://konsultimipublik.gov.al/Konsultime/Detaje/439>). Detailed information about the consultation results can be found in Annex III.

The ERP 2022-2024 was adopted by Decision of the Council of Ministers no. 51, on 26 January 2022, and shall be submitted to the European Commission within 31 January.

ANNEX I

Table 1a: Macroeconomic prospects

Percentages unless otherwise indicated	ESA Code	Year 2020	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	13.128	-4.0	8.7	4.1	4.2	3.9
2. Current GDP at market prices	B1*g	13.069	-4.4	9.4	5.5	5.2	5.4
Components of real GDP							
3. Private consumption expenditure	P3	10.661	-2.4	5.6	2.8	3.6	2.7
4. Government consumption expenditure	P3	1.576	1.6	-6.1	4.7	-1.0	0.9
5. Gross fixed capital formation	P51	2.985	-2.0	19.9	2.5	2.4	4.9
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	-0.192	-1.5	-2.9	-2.8	-2.6	-2.5
7. Exports of goods and services	P6	3.072	-28.2	31.7	4.7	6.5	6.1
8. Imports of goods and services	P7	4.973	-19.1	18.7	1.6	2.4	3.2
Contribution to real GDP growth							
9. Final domestic demand		15.2	-2.2	8.5	3.4	3.4	3.4
10. Change in inventories and net acquisition of valuables	P52+P53	-0.2	-1.5	0.0	0.0	0.0	0.0
11. External balance of goods/services	B11	-1.9	-0.2	0.3	0.7	0.8	0.5

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
1. GDP deflator		-0.4	0.6	1.4061	1.0	1.4
2. Private consumption deflator		1.6	1.0	1.7	1.9	1.8
3. HICP		1.6	2.0	2.8	3.0	3.0
4. National CPI change		1.6	2.0	2.8	3.0	3.0
5. Public consumption deflator		0.1	1.7	1.7	1.7	1.7
6. Investment deflator		0.6	0.2	0.2	0.2	0.2
7. Export price deflator (goods & services)		-1.7	0.6	1.4	0.7	1.4
8. Import price deflator (goods & services)		-0.5	1.5	1.4	2.5	1.4

Table 1c: Labour markets developments

	ESA Code	Year 2020	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
		Level	Level/Rate of change				
1. Population (thousands)			2,837.8	2,831.6	2,824.7	2,816.8	2,808.0

Albania's Economic Reform Programme 2022-2024

2. Population (growth rate in %)			-0.6	-0.2	-0.2	-0.3	-0.3
3. Working-age population (persons) 39			1,947	1,929	1,924	1,919	1,913
4. Participation rate			69.0	69.7	70.2	70.6	71.0
5. Employment, persons 40			1,181	1,190	1,211	1,227	1,236
6. Employment, hours worked 41			:	:	:	:	:
7. Employment (growth rate in %)			-1.9	0.8	1.7	1.3	0.8
8. Public sector employment			175.4	175.4	175.4	175.4	175.4
9. Public sector employment (growth			1.6	0.0	0.0	0.0	0.0
10. Unemployment rate 42			12.2	11.4	10.3	9.4	8.9
11. Labour productivity, persons 43		1376.2	-2.1	7.8	2.3	2.9	3.1
12. Labour productivity, hours worked 44			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Table 1d: Sectorial balances

Percentages of GDP	ESA code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-8.8	-8.0	-7.3	-6.9	-6.2
<i>of which:</i>						
- Balance of goods and services		-14.8	-13.7	-12.5	-11.9	-11.0
- Balance of primary incomes and transfers		4.9	4.9	4.5	4.2	4.1
- Capital account		1.1	0.8	0.7	0.8	0.7
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-3.1	-2.9	-2.6	-4.7	-4.1
3. Net lending/borrowing of general government		-6.8	-5.8	-5.4	-2.9	-2.8
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	1,617.5	1,769.3	1,867.4	1,964.8	2,070.9
Investment ratio (% of GDP)		23.0	25.2	24.6	23.9	23.9
Growth of Gross Value Added, percentage changes at constant prices						

39 Age group of 15-64 years

40 Occupied population, domestic concept national accounts definition

41 National accounts definition

42 Harmonized definition, Eurostat; levels

43 Real GDP per person employed

44 Real GDP per hour worked

1. Agriculture	0.3	-0.1	1.8	2.1	2.3
2. Industry (excluding construction)	-7.0	19.6	4.1	5.0	4.0
3. Construction	1.9	16.7	2.1	3.3	3.5
4. Services	-4.9	8.2	5.3	4.9	4.5

Table 1f: External sector developments

Billion Euro unless otherwise indicated		Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
1. Current account balance (% of GDP)	% of GDP	-8.8	-8.0	-7.3	-6.9	-6.2
2. Export of goods	bn EUR	0.8	1.2	1.2	1.3	1.5
3. Import of goods	bn EUR	3.8	4.7	4.8	5.1	5.3
4. Trade balance	bn EUR	-3.0	-3.5	-3.6	-3.8	-3.9
5. Export of services	bn EUR	2.2	2.8	3.1	3.3	3.5
6. Import of services	bn EUR	1.2	1.3	1.4	1.4	1.5
7. Service balance	bn EUR	1.1	1.5	1.7	1.8	2.0
8. Net interest payments from abroad	bn EUR	:	:	:	:	:
9. Other net factor income from abroad	bn EUR	-0.2	-0.1	-0.2	-0.2	-0.2
10. Current transfers	bn EUR	1.0	1.0	1.0	1.0	1.0
11. <i>Of which</i> from EU	bn EUR	:	:	:	:	:
12. Current account balance	bn EUR	-1.2	-1.2	-1.1	-1.1	-1.1
13. Capital and financial account	bn EUR	1.6	1.1	1.3	1.5	1.4
14. Foreign direct investment	bn EUR	0.9	0.9	1.0	1.1	1.1
15. Foreign reserves	bn EUR	0.7	0.1	0.4	0.5	0.5
16. Foreign debt	bn EUR	:	:	:	:	:
16a. <i>Of which</i> : public external debt	bn EUR	4.7	5.8	5.9	5.9	5.8
16b. <i>O/w</i> : foreign currency denominated	bn EUR	:	:	:	:	:
16c. <i>O/w</i> : repayments due	bn EUR	:	:	:	:	:
17. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	123.8	122.5	122.5	122.5	122.5
<i>p.m. Exchange rate vis-à-vis EUR (annual average)</i>	%, year-on-year	0.6	-1.0	0.0	0.0	0.0
17a. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	123.5	121.0	121.0	121.0	121.0
<i>p.m. Exchange rate vis-à-vis EUR (end-year)</i>	%, year-on-year	1.1	-2.1	0.0	0.0	0.0
22. Net foreign saving	% of GDP	8.8	8.0	7.3	6.9	6.2
23. Domestic private saving	% of GDP	14.4	14.4	15.9	14.6	14.9
24. Domestic private investment	% of GDP	15.9	16.9	17.4	18.0	17.8
25. Domestic public saving	% of GDP	-0.2	2.9	1.4	2.5	2.8
26. Domestic public investment	% of GDP	7.1	8.4	7.2	6.0	6.0

Table 1g: Sustainability indicators

	Dimension	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021
1. Current Account Balance	% of GDP	-7.5	-6.8	-7.9	-8.8	-8.0
2. Net International Investment Position	% of GDP	-46.6	-49.4	-48.5	-55.0	:
3. Export market shares	%, yoy	8.3	-21.4	38.4	-25.7	:

4. Real Effective Exchange Rate ⁴⁵	%, yoy	-4.4	-7.5	-3.9	-2.4	-2.1
5. Nominal Unit Labour Costs	%, yoy	:	:	:	:	:
6. Private sector credit flow	% of GDP	0.7	0.3	2.1	2.2	:
7. Private sector debt	% of GDP	58.5	53.7	53.8	59.4	:
8. General Government Debt	% of GDP	70.2	67.7	65.8	75.7	80.1

Table 2a: General government budgetary prospects

	ESA code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2020
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-110.37	-6.8	-5.8	-5.4	-2.9	-2.8
2. Central government	S1311	-0.16	0.0	0.1	0.9	3.5	3.4
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-34.25	-2.1	-1.4	-1.7	-1.6	-1.5
5. Social security funds	S1314	-75.96	-4.7	-4.6	-4.6	-4.9	-4.7
General government (S13)							
6. Total revenue	TR	425.90	26.3	28.6	28.7	29.0	29.1
7. Total expenditure ⁴⁶	TE	536.28	33.2	34.5	34.1	31.9	31.9
8. Net borrowing/lending	EDP.B9	-110.37	-6.8	-5.8	-5.4	-2.9	-2.8
9. Interest expenditure	EDP.D41 incl. FISIM	34.39	2.1	2.1	2.7	2.9	3.2
10. Primary balance ⁴⁷		-75.98	-4.7	-3.8	-2.7	0.0	0.3
11. One-off and other temporary measures ⁴⁸		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		248.28	15.3	16.9	17.0	17.2	17.4
12a. Taxes on production and imports	D2	181.12	11.2	12.4	12.3	12.5	12.6
12b. Current taxes on income and wealth	D5	38.78	2.4	2.6	2.7	2.8	2.8
12c. Capital taxes	D91	28.38	1.8	2.0	1.9	1.9	1.9
13. Social contributions	D61	96.54	6.0	6.1	5.9	6.0	6.0
14. Property income	D4	0.26	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14)) ⁴⁹		80.82	5.0	5.6	5.8	5.8	5.6
16 = 6. Total revenue	TR	425.90	26.3	28.6	28.7	29.0	29.1

⁴⁵ Please explain the methodology used (deflators, trade weighing, etc.)⁴⁶ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9⁴⁷ The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)⁴⁸ A plus sign means deficit-reducing one-off measures⁴⁹ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)

p.m.: Tax burden (D2+D5+D61+D91-D995) ⁵⁰		344.82	21.3	23.0	22.9	23.2	23.4
Selected components of expenditures							
16. Collective consumption	P32	175.61	10.9	9.5	9.5	9.1	8.9
17. Total social transfers	D62 + D63	208.07	12.9	12.7	12.9	12.6	12.6
17a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
17b. Social transfers other than in kind	D62	208.07	12.9	12.7	12.9	12.6	12.6
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	34.39	2.1	2.1	2.7	2.9	3.2
19. Subsidies	D3	1.48	0.1	0.1	0.1	0.1	0.1
20. Gross fixed capital formation	P51	115.36	7.1	9.2	7.5	6.2	6.3
21. Other (21 = 22-(16+17+18+19+20))		1.36	0.1	1.0	1.4	0.9	0.9
22. Total expenditures ⁵¹	TE ⁵²	536.28	33.2	34.5	34.1	31.9	31.9
p.m. compensation of public sector employees	D1	98.75	6.1	5.9	5.9	5.6	5.4

Table 2b: General government budgetary prospects

	ESA code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
bn NCU						
Net lending (B9) by sub-sectors						
1. General government	S13	-110.37	-103.31	-100.88	-57.94	-58.87
2. Central government	S1311	-0.16	2.16	16.61	69.39	70.51
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-34.25	-24.57	-31.44	-30.56	-31.82
5. Social security funds	S1314	-75.96	-80.90	-86.06	-96.77	-97.55
General government (S13)						
6. Total revenue	TR	425.90	506.89	536.81	569.74	601.79
7. Total expenditure ⁵³	TE	536.28	610.20	637.69	627.68	660.66
8. Net borrowing/lending	EDP.B9	-110.37	-103.31	-100.88	-57.94	-58.87
9. Interest expenditure	EDP.D41 incl. FISIM	34.39	36.30	50.76	57.47	65.50
10. Primary balance ⁵⁴		-75.98	-67.01	-50.13	-0.48	6.64
11. One-off and other temporary measures ⁵⁵		:	:	:	:	:

⁵⁰ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate⁵¹ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8⁵² Adjusted for the next flow of swap-related flows, so the TR-TE=EDP.B9⁵³ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9⁵⁴ The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9)⁵⁵ A plus sign means deficit-reducing one-off measures

Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		248.28	299.77	316.98	338.26	359.95
12a. Taxes on production and imports	D2	181.12	219.32	230.05	245.46	261.83
12b. Current taxes on income and wealth	D5	38.78	45.38	51.35	55.03	58.11
12c. Capital taxes	D91	28.38	35.08	35.59	37.78	40.01
13. Social contributions	D61	96.54	107.74	111.00	118.00	125.00
14. Property income	D4	0.26	0.10	0.30	0.30	0.30
15. Other (15 = 16-(12+13+14)) ⁵⁶		80.82	99.27	108.53	113.18	116.54
16 = 6. Total revenue	TR	425.90	506.89	536.81	569.74	601.79
p.m.: Tax burden (D2+D5+D61+D91-D995) ⁵⁷		344.82	407.52	427.98	456.26	484.95
Selected components of expenditures						
16. Collective consumption	P32	175.61	167.57	178.33	179.47	184.13
17. Total social transfers	D62 + D63	208.07	225.00	240.42	248.50	260.15
17a. Social transfers in kind	P31 = D63	:	:	:	:	:
17b. Social transfers other than in kind	D62	208.07	225.00	240.42	248.50	260.15
18 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	34.39	36.30	50.76	57.47	65.50
19. Subsidies	D3	1.48	1.50	1.50	1.50	1.55
20. Gross fixed capital formation	P51	115.36	162.76	140.19	122.20	130.45
21. Other (21 = 22-(16+17+18+19+20)) ⁵⁸		1.36	17.07	26.50	18.55	18.88
22. Total expenditures	TE ⁵⁹	536.28	610.20	637.69	627.68	660.66
p.m. compensation of public sector employees	D1	98.75	104.65	109.37	110.76	112.81

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year 2020	Year 2021**	Year 2022	Year 2023	Year 2024
1. General public services	1	5.2	2.4	5.5	5.4	5.5
2. Defence	2	0.8	0.9	1.5	1.5	1.5
3. Public order and safety	3	2.0	1.7	1.9	1.8	1.8
4. Economic affairs	4	3.7	3.2	3.3	3.1	3.0
5. Environmental protection	5	0.3	0.1	0.2	0.2	0.2
6. Housing and community amenities	6	3.2	2.4	3.5	2.5	2.4
7. Health	7	3.2	3.2	3.5	3.4	3.4
8. Recreation, culture and religion	8	0.4	0.3	0.4	0.5	0.5
9. Education	9	3.3	2.4	3.6	3.6	3.7
10. Social protection	10	11.0	10.1	9.9	9.6	9.6
Other relevant variables*			8.9	0.9	0.4	0.4

⁵⁶ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91)⁵⁷ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate⁵⁸ D.29+D.4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8⁵⁹ Adjusted for the next flow of swap-related flows, so the TR-TE=EDP.B9

11. Total expenditure (item 7 = 23 in Table 2)	TE	33.2	35.5	34.1	31.9	31.9
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*This item includes: (i) debt service payments, (ii) contingencies for pension and payroll policies, (iii) reserve fund, (iv) local government expenditure, and (v) reconstruction fund

** Data for 2021 are obtained according to the latest Normative Act of Budget.

Table 4: General government debt developments

% of GDP	ESA code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
1. Gross debt ⁶⁰		75.7	80.1	78.9	77.7	75.8
2. Change in gross debt ratio		9.9	4.4	-1.2	-1.2	-1.9
Contributions to change in gross debt						
3. Primary balance ⁶¹		4.7	3.8	2.7	0.0	-0.3
4. Interest expenditure ⁶²	EDP D.41	2.1	2.1	2.7	2.9	3.2
5. Real growth effect		2.7	-6.0	-3.1	-3.2	-2.9
6. Inflation effect		0.3	-0.4	-1.1	-0.7	-1.1
7. Stock-flow adjustment		0.1	5.0	-2.4	-0.3	-0.8
<i>of which:</i>						
- Differences between cash and accruals ⁶³		0.0	0.0	0.0	0.0	0.0
- Net accumulation of financial assets ⁶⁴		0.0	0.0	0.0	0.0	0.0
<i>of which:</i>						
- Privatisation proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other ⁶⁵		0.0	0.0	0.0	0.0	0.0
p.m. implicit interest rate on debt ⁶⁶		3.1	3.0	3.6	3.9	4.3
Other relevant variables						
8. Liquid financial assets ⁶⁷		0.5	4.7	1.8	1.5	1.0
9. Net financial debt (9 = 1 - 8)		75.2	75.3	77.1	76.1	74.7

Table 5: Cyclical developments

% of GDP	ESA Code	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
1. Real GDP growth (% , yoy)	B1g	-4.0	8.7	4.1	4.2	3.9
2. Net lending of general government	EDP.B.9	-6.8	-5.8	-5.4	-2.9	-2.8
3. Interest expenditure	EDP.D.41	2.1	2.1	2.7	2.9	3.2
4. One-off and other temporary measures ⁶⁸		:	:	:	:	:
8. Potential GDP growth (% , yoy) ⁶⁹		2.9	3.4	3.7	3.8	3.9
Contributions:						
- labour		:	:	:	:	:

⁶⁰ As defined in Regulation 3605/93 (not an ESA concept)

⁶¹ Cf. item 10 in Table 2

⁶² Cf. item 9 in Table 2

⁶³ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant

⁶⁴ Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant

⁶⁵ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant

⁶⁶ Proxied by interest expenditure divided by debt level of the previous year

⁶⁷ AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares)

⁶⁸ A plus sign means deficit-reducing one-off measures

⁶⁹ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP)

- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		-5.6	-0.7	-0.3	0.1	0.1
7. Cyclical budgetary component		-1.8	-0.2	-0.1	0.0	0.0
8. Cyclically-adjusted balance (2-7)		-5.0	-5.6	-5.3	-3.0	-2.9
9. Cyclically-adjusted primary balance (8+3)		-2.9	-3.6	-2.6	0.0	0.3
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
1. GDP growth (% , yoy)					
Previous programme	-4.4	5.5	4.8	4.5	3.9
Latest update	-4.0	8.7	4.1	4.2	3.9
Difference (percentage points)	0.4	3.3	-0.7	-0.3	0.0
2. General government net lending (% of GDP)					
Previous programme	-6.7	-6.5	-2.9	-2.3	-2.0
Latest update	-6.8	-5.8	-5.4	-2.9	-2.8
Difference	-0.1	0.6	-2.5	-0.7	-0.8
3. General government gross debt (% of GDP)					
Previous programme	79.9	78.6	77.7	75.6	73.7993
Latest update	75.7	80.1	78.9	77.7	75.8
Difference	-4.2	1.5	1.2	2.1	2.0

Table 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimension	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
Short-term interest rate	Annual average	-0.4	-0.5	-0.5	-0.3	-0.3
Long-term interest rate	Annual average	-0.5	-0.3	-0.1	0.1	0.1
USD/EUR exchange rate	Annual average	1.14	1.19	1.16	1.16	1.16
Nominal effective exchange rate	Annual average	3.94	1.3	-1.3	0	0
Exchange rate vis-à-vis the EUR	Annual average	123.77	122.46	122.46	122.46	122.46
Global GDP growth, excluding EU	Annual average	-2.9	5.8	4.5	3.7	3.7
EU GDP growth	Annual average	-5.9	5.0	4.3	2.5	2.5
Growth of relevant foreign markets	Annual average	:	:	:	:	:
World import volumes, excluding EU	Annual average	-8.9	9.3	6.1	4.5	4.5
Oil prices (Brent, USD/barrel)	Annual average	43.4	71.6	78.9	72.3	72.3

Source: European Economic Forecast - Autumn 2021

Table 9a: Social scoreboard indicators

	Data source	2017	2018	2019	2020	2021 (Q2)
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Equal opportunities						
1. Adult participation in learning during the last 12 months, age 25-64	INSTAT, LFS ⁷⁰	0.9	0.9	0.8	0.7	0.9
2. Share of early leavers from education and training, age 18-24	INSTAT, LFS ⁷¹	19.6	17.4	16.3	15.6	
3. Share of population with basic overall digital skills or above, age 16-74						
4. Young people neither in employment nor in education or training (NEET rate), age 15-29	INSTAT, LFS ⁷²	29.7	28.6	26.6	27.9	25.9
5. Gender gap in employment rate, age 20-64	INSTAT, LFS	16.5	16.5	15	15.2	16.2
6. Income quintile share ratio - S80/S20	EU-SILC	7.5	7	6.4		
Working conditions						
7. Employment rate, age 20-64	INSTAT, LFS ⁷³	63.9	65.6	67.1	66.3	66.2
8. Unemployment rate, age 15-74	INSTAT, LFS ⁷⁴	13.7	12.3	11.5	11.7	11.7
9. Long-term unemployment rate, age 15-74	INSTAT, LFS ⁷⁵	8.9	8.3	7.3	7.0	8.0
10. Gross disposable income of households in real terms, per capita	EU-SILC	4370	4688	4992		
Social protection and inclusion						
11. At-risk-of-poverty or social exclusion rate (AROPE)	EU-SILC	51.8	49	46.2		
12. At-risk-of-poverty or social exclusion rate (AROPE) for children (0-17)	EU-SILC	54.8	52.4	49.4		
13. Impact of social transfers (other than pensions) on poverty reduction	EU-SILC	27.1	26.3	26.1		
14. Disability employment gap, age 20-64						
15. Housing cost overburden rate	EU-SILC	9.2	6	5.5		
16. Children aged less than 3 years in formal childcare						
17. Self-reported unmet needs for medical care	EU-SILC	19	21.5	21.2		

Table 9b: Other selected indicators

	Data source	2017	2018	2019	2020	2021 Q1	2021 Q2
Other social and healthcare indicators							
1. Public social protection expenditure in % of GDP	MFE, INSTAT	9.29	9.23	9.40	10.99		

⁷⁰ <http://www.instat.gov.al/en/sdgs/quality-education/43-ensure-equal-access-for-all-women-and-men-to-affordable-and-quality-technical-vocational-and-tertiary-education-including-university/431-participation-rate-of-youth-and-adults-in-formal-and-non-formal-education-and-training-in-the-previous-12-months-by-sex/>

⁷¹ <http://www.instat.gov.al/en/sdgs/quality-education/43-ensure-equal-access-for-all-women-and-men-to-affordable-and-quality-technical-vocational-and-tertiary-education-including-university/431-participation-rate-of-youth-and-adults-in-formal-and-non-formal-education-and-training-in-the-previous-12-months-by-sex/>

⁷² <http://www.instat.gov.al/en/publications/books/2020/labour-market-2019/>

⁷³ <http://www.instat.gov.al/en/publications/books/2020/labour-market-2019/>

⁷⁴ <http://www.instat.gov.al/en/publications/books/2020/labour-market-2019/>

⁷⁵ <http://www.instat.gov.al/en/publications/books/2020/labour-market-2019/>

2. Public healthcare expenditure in % of GDP	MFE, INSTAT	2.92	2.99	3.03	3.19		
3. Household out-of-pocket payments as a % of total health expenditure							
4. Percentage of population not covered by health insurance							
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							
8. Greenhouse gas emissions per capita							
9. Generation of waste excluding major mineral wastes							
Digital economy							
10. Percentage of households with broadband access (mobile and fixed)	ICT usage by households and individual survey	NA	83.6	85.45	87.2 ⁷⁶	0	
11. Share of total population using internet [NB: population 16-74]	ICT usage by households and individual survey	NA	62.6	68.6	72.2	0	
Energy							
12. Energy imports dependency (%)	INSTAT (Administrative data from NANR)	38.23	21.14	31.55	0		
13. Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	INSTAT (Administrative data from NANR)	N/A	N/A	N/A	N/A	0	
14. Share of renewable energy sources (RES) in final energy consumption (%)	INSTAT (Administrative data from NANR)	34.46	34.86	30.58	33.53		
Transport							
15. Railway Network Density (meters of line per km ² of land area)	MoIE, INSTAT's calculation	11.62	11.62	5.88	7.79		
16. Motorization rate (Passenger cars per 1000 inhabitants)	MoIE, INSTAT's calculation	146.9	160.5	175.0	191.8		
Agriculture							

⁷⁶ Indicator no.10 is calculated as Eurostat definition and 2020 is not yet published in Eurostat Database.

17. Share of gross value added (Agriculture, Forestry and Fishing)	⁷⁷	21.8	21.1	21.0	21.8	23.2	25.9
18. Share of employment (Agriculture, Forestry and Fishing)	⁷⁸	38.2	37.4	36.4	36.1	33.9	33.6
19. Utilised agricultural area (% of total land area) ⁷⁹							
Industry (except construction)							
20. Share of gross value added	⁸⁰	12.8	14.1	13.8	12.5	14.7	13.8
21. Contribution to employment (% of total employment)	⁸¹	12.5	12.7	13.1	13.5	13.3	13.4
Services							
22. Share of gross value added	⁸²	54.9	54.6	55.4	55.2	53.8	49.1
23. Contribution to employment (% of total employment)	⁸³	42.4	42.9	43.5	43.4	44.6	44.6
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)							
27. R&D expenditure – EUR per inhabitant							
Trade							
28. Export of goods and services (as % of GDP)	National Accounts, INSTAT	31.6	31.6	31.3	23.1	26.0	30.1
29. Import of goods and services (as % of GDP)	National Accounts, INSTAT	46.6	45.2	45.0	37.9	40.7	40.5
30. Trade balance (as % of GDP)	National Accounts, INSTAT	15.0	13.6	13.7	14.8	14.7	10.4

Table 10a: Costing of structural reform measures (in EUR)

Key Challenges**Key Challenge #1**

Reform measure 01: Increasing the quality and access to VET					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	970,800	1,500,000		5,080,000	7,550,800
2023	970,000	1,680,000		5,150,200	7,800,200
2024	980,000	1,690,000		6,403,500	9,073,500

⁷⁷ https://ec.europa.eu/eurostat/databrowser/view/NAMA_10_A64_custom_1349853/default/table?lang=en
<http://www.instat.gov.al/en/themes/economy-and-finance/national-accounts-gdp/#tab2>

⁷⁸ <http://www.instat.gov.al/en/publications/books/2020/labour-market-2019/>

⁷⁹ According to official data reported by MARD, this indicator is estimated at around 41% for all the time series

⁸⁰ https://ec.europa.eu/eurostat/databrowser/view/NAMA_10_A64_custom_1349853/default/table?lang=en
<http://www.instat.gov.al/en/themes/economy-and-finance/national-accounts-gdp/#tab2>

⁸¹ <http://www.instat.gov.al/en/publications/books/2020/labour-market-2019/>

⁸² https://ec.europa.eu/eurostat/databrowser/view/NAMA_10_A64_custom_1349853/default/table?lang=en
<http://www.instat.gov.al/en/themes/economy-and-finance/national-accounts-gdp/#tab2>

⁸³ <http://www.instat.gov.al/en/publications/books/2020/labour-market-2019/>

Reform measure 02: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	4858942.1	1404958.6	11666677.6	669421.4	18600000
2023	4858942.1	1404958.6	11666677.6	669421.4	18600000
2024	4858942.1	1404958.6	9762958.6	669421.4	18600000

Reform measure 03: Improving institutional, financial and human capacities for research and innovation					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022					
2023					
2024					

Key Challenge #2

Reform measure 04: Increasing the coverage and adequacy of integrated social care system to reduce the share of the population at risk of poverty					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2021	0	0	209,584,879	0	209,584,879
2022	0	0	216,679,174	0	216,679,174
2023	0	0	216,499,794	0	216,499,794

Reform measure 05: Increasing access to health care					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022					
2023					
2024					

Key Challenge #3

Reform measure 06: Strengthening the fight against informality					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	0	0	0	0	0
2023	0	0	0	0	0
2024	0	0	0	0	0

Reform measure 07: Developing a legal framework to support innovative start-ups					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	123,559	N/A	240,307	N/A	363,866
2023	123,559	N/A	2,537,256	N/A	2,660,815
2024	123,559	N/A	2,537,256	N/A	2,660,815

Reform measure 08: Support measures for MSMEs					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	33,096	51,471	2,219,057	N/A	2,303,624
2023	33,096	51,471	2,333,813	N/A	2,418,380
2024	33,096	51,471	123,473	N/A	208,040

Reform measure 09: Modernisation of retail payment instruments					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total

2022				3,000,000 ⁸⁴	3,000,000
2023					
2024					

Other areas**Reform measure 10: Public Strategic Investment**

Year	Salaries	Goods and services	One-time Costs	Capital expenditure	Total
2022	48566	16189	812431	N/A	877186
2023	48566	16189	812431	N/A	877186
2024					

Reform measure 11: Development of the broadband infrastructure for digital economy

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	0	1113333	0	0	1113333
2023	0	933333	0	2.500.000	3433333
2024	0	33333	0	2.500.000	2533333

Reform measure 12: Deepening Economic Integration

Implementation of cross-border project National Single Window and NCTS

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
Implementation of National Single Window and NCTS					
2022-2024					5,593,750

Reform measure 13: Further liberalisation of the energy market

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	N/A	N/A	N/A	N/A	N/A
2023	N/A	N/A	N/A	N/A	N/A
2024	N/A	N/A	N/A	N/A	N/A

Reform measure 14: Energy efficiency improvements

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	N/A	1,766,433	N/A	N/A	N/A
2023	N/A	N/A	N/A	N/A	N/A
2024	N/A	N/A	N/A	N/A	N/A

Reform measure 15: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana (in million)

Year	Salaries ⁸⁵	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022		69.8	3.72	6.06	79.58
2023		0	0.87	5.0	5.87
2024		0	0	5.0	5

Reform measure 16: Better marine and maritime governance and services

Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	0	0	0	0	0

⁸⁴ Capital expenditures refer to the development of instant payment solution. The foreseen amount is a rough estimation based on other countries experiences. The investment will covered and operated by private entities/market actors.

⁸⁵ The construction company shall determine the salaries, as appropriate. By now, salaries to the Project Implementation Unit, are executing/reporting, given the subsidies/transfers item of the HSH budgeting. THIS BUDGET IS NOT IN THE CIVIL WORK

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2023	0	0	0	0	0
2024	0	0	0	0	0

Reform measure 17: Support the implementation of pre-university curricular reform and teacher training					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022	160,000.0	6,851.1	30,000.0	0	196,851.10
2023	320,000.0	3,936.0	60,000.0	0	383,936.00
2024	450,000.0	1,722.0	90,000.0	0	541,722.00

Reform measure 18: Inclusiveness and equality in education					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022		171,353.0		0	171,353.0
2023		176,493.0		0	176,493.0
2024		181,788.0		0	181,788.0

Reform measure 19: Development and empowerment of digital competency of teachers					
Year	Salaries	Goods and services	Subsidies & transfers	Capital expenditure	Total
2022		3,124.2		170,000	173,124.2
2023		6,814.2		170,000	176,814.2
2024		10,885.5		170,000	180,885.5

Table 10b: Financing of structural reform measures

Key Challenges**Key Challenge #1**

Reform measure 01: Increasing the quality and access to VET								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	4,650,800	0	0	0	2,900,000			7,550,800
2023	5,600,200	0	0	0	2,200,000			7,800,200
2024	6,223,500	0	0	0	2,850,000			9,073,500

Reform measure 02: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	1114876	17485123.9		TA ⁸⁶	106800			18600000
2023	1114876	17485123.9						18600000
2024	1114876	17485123.9						18600000

Reform measure 03: 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
2022								

⁸⁶ Technical Assistance with three beneficiaries, amount not divided by years.

2023								
2024								

Key Challenge #2**Reform measure 04: Increasing the coverage and adequacy of integrated social care system to reduce the share of the population at risk of poverty**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	208,584,879			1,000,000				209,584,879
2023	215,179,174			1,500,000				216,679,174
2024	216,499,794							216,499,794

Reform measure 05: Increasing access to health care

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	208,584,879			1,000,000				209,584,879
2023	215,179,174			1,500,000				216,679,174
2024	216,499,794							216,499,794

Key Challenge #3**Reform measure 06: Strengthening the fight against informality**

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	0	0	0	0	0	0	0	0
2023	0	0	0	0	0	0	0	0
2024	0	0	0	0	0	0	0	0

Reform measure 07: 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
2022	123,559	N/A	N/A	N/A	240,307			363,866
2023	123,559	N/A	N/A	N/A	2,537,256			2,660,815
2024	123,559	N/A	N/A	N/A	2,537,256			2,660,815

Reform measure 08: Support measures for MSMEs

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	84,567	N/A	N/A	N/A	2,219,057			2,303,624
2023	208,040	N/A	N/A	N/A	2,210,340			2,418,380
2024	208,040	N/A	N/A	N/A	N/A			208,040

Reform measure 09: Modernisation of retail payment instruments

Year	Central	Local	Other	IPA	Other	Project	TBD	Total
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	Budget	Budgets	national public finance sources	funds	grants	loans		
2022							3,000,000 ⁸⁷	3,000,000
2023								
2024								

Other areas

Reform measure 10: Public Strategic Investments								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	64,755	N/A	N/A	812,431	N/A	N/A	N/A	877,186
2023	64,755	N/A	N/A	812,431	N/A	N/A	N/A	877,186
2024								

Reform measure 11: Development of the broadband infrastructure for digital economy								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	163333	0	0	0	950000	0		1113333
2023	133333	0	0	0	3300000	0	0	3433333
2024	33333	0	0	0	2500000	0	0	2533333

Reform measure 12: Deepening Economic Integration								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
Implementation of National Single Window ⁸⁸								
2022 - 2024	0	0	0	0	0	3,562,500	0	3,562,500
Implementation of NCTS ⁸⁹								
2022 - 2024	0	0	0	0	0	1,812,500	0	1,812,500
Implementation of Single Window and NCTS ⁹⁰								
2022 - 2024	0	0	0	0	218,750	0	0	218,750

Reform measure 13: Further liberalisation of the energy market ⁹¹								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total

⁸⁷ It refers to the development of instant payment solution, which will be financed and operated by private entities/market actors. The foreseen amount is a rough estimation based on other countries experiences.

⁸⁸ Single Window and NCTS are projects funded by World Bank. The loan is in US Dollar. The value in Euro is calculated with the exchange rate 1 EUR = 1.61 USD.

⁸⁹ Single Window and NCTS are projects funded by World Bank. The loan is in US Dollar. The value in Euro is calculated with the exchange rate 1 EUR = 1.61 USD.

⁹⁰ The grant for those two projects are accorded by IFC

⁹¹ EUR 70 million for the completion of the Elbasan-Bitola interconnection line (EUR 50 million loan; EUR 15 million grant; EUR 5 million financing from the TSO). It has no direct impact on the state budget

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2022								
2023								
2024								

Reform measure 14: Energy efficiency improvements

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	1766433			336000	285600			1766433
2023	In process/ not yet approved			In process				In process
2024	In process/ not yet approved			In process				In process

Reform measure 15: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	6.06 mn	6.06 mn	0	26 mn	10.65 mn	36.87 mn		79.58 mn
2023	5 mn	0	0	0	870k	0		5.87 mn
2024	5 mn	0	0	0	0	0		5 mn

Reform measure 16: Better marine and maritime governance and services

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022								
2023								
2024								

Reform measure 17: Support the implementation of pre-university curricular reform and teacher training

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	196,851	0	0	0	0	0	0	196,851.1
2023	383,936	0	0	0	0	0	0	383,936.0
2024	541,722	0	0	0	0	0	0	541,722.0

Reform measure 18: Inclusiveness and equality in education

Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	171,353.0	0	0	0	0	0	0	171,353.0
2023	176,493.0	0	0	0	0	0	0	176,493.0

2024	181,788.0	0	0	0	0	0	0	181,788.0
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Reform measure 19: Development and empowerment of digital competency								
Year	Central Budget	Local Budgets	Other national public finance sources	IPA funds	Other grants	Project loans	TBD	Total
2022	173,124.2	0	0	0	0	0	0	173,124.2
2023	176,814.2	0	0	0	0	0	0	176,814.2
2024	180,885.5	0	0	0	0	0	0	180,885.5

Table 11: Reporting on the implementation of the structural reform measures of the ERP 2021-2023⁹²

Reform measure: Further liberalisation of the energy market		Stage of reform implementation
Activities planned for 2021	Liberalisation of the electricity market (consumers in the free market).	4
	The unbundling of the distribution activity from the supply.	4
	Establishment of Albanian Power Exchange	3
	Security of supply	3
Description of implementation and explanation if partial or no implementation	<p>Starting from 18 March 2020, all the clients connected to 35 kV grid are supplied in the liberalised market, with the exception of the subjects⁹³ as part of the public service:</p> <ul style="list-style-type: none"> - State institutions that provide public health services (hospitals and emergency centres); - Companies that provide drinking water to consumers; - State institutions that execute criminal punishments and state institutions. <p>The entry into the unregulated market of electricity customers connected to 20 kV is closely related to the quality of service provided by the DSO S.A, as well as the allowed performance indicators. One of the main elements for controlling the monitoring of voltage quality and performance indicators of the electricity distribution network is:</p> <ul style="list-style-type: none"> j. installation of smart metering in clients which is still in process by the DSO k. preparation of 20kV network by turning it into a SMART network l. Planning of electricity networks in active form (where energy has two directions) which comes as a result of energy injection by users / producers in the distribution network. The planning of these investments brings as a consequence the demand to implement quality indicators, and consequently the entry into an unregulated market. The deadlines for the implementation of quality indicators are not related to the deadlines for the unregulated market entry of non-household customers, but may determine an exit trend in an escalated manner according to the areas with the highest load / consumption. <p>Regarding market opening, with Order of Minister of Infrastructure and Energy No 28 of 18.01.2021 "On the approval of the roadmap for market opening and deregulation of electricity prices" a roadmap on market opening and process deregulation was approved, which foresees that starting from 1 January 2021 all consumers connected to 35 kV and a part</p>	

⁹² 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

⁹³ Article 5(4.2) of the Decision of Council of Ministers No 244 of 30.03.2016 "On the approval of the conditions to impose the obligation of public service that will be applied to the licensed in the electricity sector, which carry out producing, transmission, distribution and supplying of electricity", as amended.

	<p>of consumers connected to 20 kV will be supplied through a deregulated market and price (phase 1) and starting from 1 January 2022 all consumers besides 0.4 kV will be supplied with deregulated prices. The entry into the unregulated market of electricity customers is closely related to the quality of service provided by the DSO S.A as well as the allowed performance indicators. One of the main elements for controlling the monitoring of voltage quality and performance indicators of the electricity distribution network is the installation of smart metering in clients as an obligation of OSSH S.A. in accordance with article 78 "Intelligent metering systems" of the Law no 43/2015 "On power sector" as amended. Pursuant to this article, significant investments are required in both information systems and terminal equipment. Although during the years 2019 - 2020 two pilot projects for smart metering have been implemented, with promising and positive results, the challenges faced by the company in recent years starting from the unfavourable hydrological situation, the consequences of 2019 earthquake and the impact of Covid 2019, have forced the company to deviate and reduce investments in order to provide energy for all users.</p>	
	<p>As of 1 January 2020, the legal and functional unbundling of Distribution System Operator (OSHEE S.A.) was completed in line with Decision of Board of Commissioners of ERE No 211, dated 18.12.2019 and the three incorporated daughter companies are carrying out their activities:</p> <ol style="list-style-type: none"> 1. Universal Service Supplier S.A. (FSHU) with the object of activity "Electricity supply of end-customers operating in the regulated market defined by the legislation in force"; 2. Free Market Supplier S.A. (FTL) with the object of activity "Purchase and management of electricity and operation in the free market, etc"; 3. Distribution System Operator S.A. (OSSH) with the object of activity "Distribution of electricity, construction, operation and maintenance of the electricity distribution network for the supply of electricity to customers, connection of customers and users of the network electricity, distribution, installation and electricity metering services, etc.". <p>The Albanian Energy Regulator Authority, with the Decision of Board of Commissioners of ERE No 257 of 21.12.2020 "On the approval of the Compliance Program of the Distribution System Operator", approved the Compliance Program of the Distribution System Operator.</p>	
	<p>On 5 October 2020, the Transmission System Operator – (OST S.A) and the System, of Transmission and Market Operator – (KOSTT S.A), signed the Shareholders' Agreement and the Statute for the establishment of the power exchange company that will operate the short term electricity markets in Albania and in Kosovo.</p> <p>The Power Exchange Operator (ALPEX) was registered at the National Business Centre on 23.10.2020 and its governing bodies were established.</p> <p>The Organisational Structure of the company ALPEX was approved by the Decision of the Supervisory Council of the company No 5 of 19.11.2020 "On the approval of the Organisational Structure of ALPEX".</p> <p>ALPEX will operate the day-ahead market coupling between Albania and Kosovo soon after its operationalisation.</p> <p>The Terms of References for Forecasting the Infrastructure and Services Necessary for the Organised Market Operation were prepared, and on 18 March 2021, ALPEX (Contracting Authority) launched the international open bid procedure for the "Electronic Trading Platform for the Day-Ahead & Intra-Day Market and Services, required for the operation of the</p>	

	<p>Organised Market in Albania and Kosovo. This procedure was cancelled as the participant did not meet the eligibility criteria.</p> <p>ALPEX (the Contracting Authority) relaunched the international open bid procedure for the “Electronic Trading Platform for the Day-Ahead & Intra-Day Market and Services, required for the operation of the Organised Market in Albania and Kosovo”. The bids were opened on 2.08.202, and two operators had applied. The procedure was cancelled because none of the offers were valid.</p> <p>ALPEX has re-announced the bidding procedure, but the procedure has been suspended due to a complaint submitted to the Public Procurement Commission related to the criteria.</p> <p>ERE approved the Decision of Board of Commissioners of ERE No 126 of 17.05.2021 “On the approval of the Regulation on Wholesale Electricity Markets Integrity and Transparency” –REMIT.</p> <p>The approval of REMIT aims to guarantee transparent competitive conditions as well as to combat and prevent abusive behaviour by immediately identifying any need to adapt within the regulation (also for system security purposes), as well as any reporting on market competition.</p> <p>ERE, with Decision no. 203 dated 12.12.2019, approved the Rules to monitor the Electricity Market, as a first step to define in detail the manner and procedures to be followed by ERE in order to monitor the functioning of the Electricity Market in our country. The full implementation of the market monitoring regulation and REMIT shall be a challenge not only for the Regulator, but for all the participants in the electricity market in our country, during the establishment of the Power Exchange. At the same time, the Regulation shall create conditions for transparency in expanding the liberalization of the electricity market in Albania.</p>	
	<p>Investments in the distribution/ transmission grid and generating system</p> <ul style="list-style-type: none"> 400 kV interconnection line between Albania and Kosovo The 400 kV interconnection line between Albania and Kosovo was completed on 28.06.2016 and on 20.04.2020, the new connection agreement between Kosovo’s transmission system operator (TSO) KOSTT and ENTSO-E was successfully concluded by the Regional Group of Continental Europe (RGCE). After the vote, and then the signature, KOSTT and the Republic of Kosovo gain energy independence from Serbia and Independent Operation as a Regulatory Zone, within the Kosovo – Albania Regulatory Block. On 14.12.2020, the Connection Agreement between KOSTT and the transmission system operators (TSOs) from Continental Europe entered into force marking the first day of operation of KOSTT as a control area within the joint control block with the Albanian TSO, OST. In addition, the new 400 kV line between Kosovo and Albania is now in operation contributing to further cross-border exchanges. 400 kV interconnection line Albania – North Macedonia The 400 kV interconnection line Albania - North Macedonia, is one of the most important projects of the Albanian power sector and in full compliance with the policies of the Albanian Government to support the power sector, which aims to increase the power transmission capacity, to improve the cost efficient security of supply and reduce losses in the transmission and supply of power in Albania, create the conditions for an integrated power market in the region and to create import and export power capacities. <p>As previously reported, the Transmission System Operator signed the contract with the German consultant Fichtner GmbH and Co.KG on 9.01.2018, which entered into force on 16.04.2018, for the consultancy</p>	

	<p>service on the 400 kV interconnection line Albania – North Macedonia, Elbasani – Fieri line and extension of Elbasani 2 substation and Fieri substation. Consultancy will cover the 12 month phase of project preparation and tendering, as well the 24 month phase implementation and its completion.</p> <p>The tender procedure for the selection of Contractors who will implement the project for each lot, was developed based on the tender documentation prepared by the German consulting company Fichtner GmbH & Co.KG-Germany as an International Open Procedure, based on the provisions of the KfW Guideline “Guidelines for Procurement Consulting Services, Works, Plants, Goods, and Non-Consulting Services in Financial Cooperation with Partner Countries, January 2019”.</p> <p>The project is divided into two Lots: Lot 1 (Lines) and Lot 2 (Substations).</p> <p><i>Current Stage of Lot 1</i> After receiving “No Objection” from the KfW, the project implementation contract with the winning bidder for this lot JV Mitas Energy and Metal Construction Inc - DOKO sh.pk (Turkey & Albania), was signed on 14.01.2021, with a value of 24,642,478.02 Euro. The effective date of the contract after fulfilling the conditions provided in this contract was on 10.03.2021. The deadline / schedule of project completion for this lot is foreseen 24 months from the effective contract date.</p> <p><i>Current Stage of Lot 2</i> After receiving the “No Objection” from the KfW, the project implementation contract with the winning bidder for this lot Mytilineos S.A. (Greece) was signed on 14.04.2021, with a value of 21,173,500.00 Euro. The contract is expected to become effective soon, after fulfilling the conditions set out in it. The deadline/date of completion of the project for this lot is foreseen 24 months from the date of effective contract.</p> <p>On 30.08.2021, is was announced the beginning of the construction of the 400 kV/110 kV Ohrid Substation which will be connected with input and output to the new 400 kV interconnection Bitola – Elbasan. The realization of this capital infrastructure project completes the electrical interconnection between the two countries North Macedonia and Albania and the region.</p> <p>Further reduction of distribution losses - Level of electricity losses in distribution grid Year 2020 – 21.48 %; Year 2021 (January – Korrik) – 24%</p> <p>Further increment of bill collection rates - Bill Collection Rate Year 2020 – 95.8 % Year 2021 (January – July) – 112 %</p>	
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Reform measure: Diversification of energy sources through the promotion of renewable energy sources and energy efficiency improvements:		Stage of reform implementation
Activities planned for 2021	<ul style="list-style-type: none"> - Preparation and approval of secondary legislation based on the law no. 7/2017 on the promotion of the use of energy from renewable sources (MIE/AKBN/OSHEE/OST/ERE); <ul style="list-style-type: none"> a. DCM “On the obligation to purchase electricity produced by priority electricity producers that do not benefit from the support scheme under the difference contract; b. DCM “On the Methodology for calculating the electricity price for self-producers that benefit from the Net Metering Scheme”. 	0
	<ul style="list-style-type: none"> - Preparation and approval of secondary legislation based on the law 	5

	<p>on energy efficiency⁹⁴ and the law on the energy performance in buildings⁹⁵ (MIE/EBRD/AEE);</p> <ul style="list-style-type: none"> a. DCM "On the Approval of the National PEN Calculation Methodology"; b. DCM "On Minimum PEN and Building Element Requirements"; c. DCM "On the procedures and conditions of certification of energy performance in buildings". d. DCM No.934, dated 25.11.2020 "On the Criteria and procedures of selection and the amount of certificates to be verified, as well as the process of supervising the energy performance certificates" of buildings " <p>- DCM "On the National Methodology of calculating energy performance in buildings adopted by 24th December 2020..</p>	
	- Implementation of "Akernia PV Power Plant 100 MW" project (permits phase);	0
	- Announcement of the bidding procedure to select the project developer for the construction of a 70MW photovoltaic plant, as part of the support measures, in the Karavasta (Lushnje - Fier) area and the construction of additional 70 MW capacity, which will not be part of supportive measures and the signing of the PPA Contract	5
	- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities (MIE/AKBN);	5
	- Pilot project on promotion of energy efficiency;	5
Description of implementation and explanation if partial or no implementation	<p>1- The secondary legislation based on the law no. 7/2017 on the promotion of the use of energy from renewable sources isn't prepared yet. There are no new development on these issues.</p> <p>2- The secondary legislation based on the law on the energy performance in buildings is accomplished as follows:</p> <ul style="list-style-type: none"> - Decision of Council of Ministers no.256, dated 27.03.2020 "On approval the methodology to calculate cost-optimal levels of minimum energy performance for buildings and building elements", partially aligned with the Commission Delegated Regulation (EU) No 244/2012 of 16 January 2012 supplementing Directive 2010/31/EU; - DCM No. 537, date 08.07.2020 "On the minimum criteria of energy performance in buildings" - DCM No.934, dated 25.11.2020 "On the Criteria and procedures of selection and the amount of certificates to be verified, as well as the process of supervising the energy performance certificates" of buildings " - DCM No.958, dated 02.12.2020 "On the procedures and conditions of energy performance certification of buildings and the model, content, conditions of registration of "Certificate of energy performance" of the respective buildings". - DCM "On the National Methodology of calculating energy performance in buildings adopted by 24th December 2020. <p>3- The activity: Implementation of "Akernia PV Power Plant 100 MW" project (permits phase) has been removed. The bidding procedure for the project of the construction of a photovoltaic plant with an installed capacity of 100 MW, in the Akërni Area (close to Vlora) has failed. Recently MIE has rejected the company's request for extension, taking into account the non-compliance with various points of the contract by the winning company for the development of the project;</p>	

⁹⁴ Law No.124/2015⁹⁵ Law No 116/2016

	<p>4- The contract is signed between MIE and Volitalia, the selected developer of the project for the construction of a photovoltaic plant in Remas – Karavasta (close to Lushnja area) with an installed capacity of 140 MW, where 70 MW, as part of the support and 70 MW which will not be part of the Support Measures. The project is in accordance with the contract for achieving permits.</p> <p>5- Monitoring the implementation of new wind and solar energy projects that are equipped with the final approval to build new electricity generation capacities has been slowed down due to the restricted measures of Covid-9 situation.</p> <p>6- Pilot project on promotion of energy efficiency has been achieved fully. The reconstruction of one of the buildings of Ministry of Infrastructure and Energy with energy efficiency measures is finished and alternative system is conducted as one of the measures of National Action Plan on Energy Efficiency for the renovation of public buildings.</p>	
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Reform measure: Rehabilitation and construction of the railway segment Durrës-TIA-Tirana		Stage of reform implementation
Activities planned for 2021	The European Bank for reconstruction and development monitors the implementing of its EBRD strategy for Albania 2020-2025 and this project is incl. the 1 st measure for transport sector, rail, air, road safety and investments in port of Durres	5
	<ul style="list-style-type: none"> - The winner announced by the Promoter MIE for the Project and donor EBRD bank for reconstruction and development - The INC SPA and HSH (both chairperson of supervisory board and Administrator of the company) signed the civil works contract, a performance based contract of 913 pages. 	5
	- ESIA Project environmental, social, and health and safety plan has been reviewed and the EU TA is ongoing to assist the HSH drafting certain reports before the 1 st withdrawal of EU funds from the Account in the Bank. The acc. holder is: Ministry of Finance and Economy of Albania/Albanian HSH	4
Description of implementation and explanation if partial or no implementation	<p>Contract and its annex which is the ESAP is implementing with the EBRD Consulting TA technical assistance, until now they delivered the inception report which had the positive feedback from the EBRD, after comments arrived by the HSH</p> <p>The 6 other EU TAs are ongoing with IFRS and TAC and RIA-AMS, SAMP strategic asset management (ISO 55001)</p> <ul style="list-style-type: none"> - 6 EU TA technical assistance has started, as appropriate: <ol style="list-style-type: none"> 1. Supervision and project management (announced the winner to the procurement procedure) 2. TAC and AMP kicked-off on 5.02.2020 to restarted from 2.06.2021-03/2022 due to Covid19; ongoing very well; 3. Civil society skills and training and capacity raising for railways procured as of 21/02/2021; ongoing activities; 4. International assistance on ESAP implementation to HSH, for phase of Construction/ ongoing with the consultancy 5. IFRS /MIS system for international reporting financial system for the beneficiary- kicked off; started financial controls; 6. LAP Acquisition plan re-evaluation assisted by EU; delivered for Decision GoA (local costs); a DCM is expected; - The project starts its excavations works by end of 09/2021 	4
	The complains handling mechanism is in place and collect by PMG where Liaison Community Manager and the 5 other Project Managers, incl. HR manger, Environmental/social manager, legal manager, Health & safety manager HSM, SPO	4

	<p>The project shall ensure the interoperability for a midterm program in purchasing new hybrid trains, and increased safety level at ECTS '1', for reading more, the technicalities/aspects:</p> <ul style="list-style-type: none"> • Operation of the Durres Terminal Railway Station: Both operational platform section and the connecting corridor will be separated from the work site by means of appropriate safety fencing. • Connection of Durres Terminal Railway Station During all stages of works a single line railway operation will be maintained between the operational section of Durres station platform and: • Railway branch to the south towards Rrogozhine – Railway branch to the north towards Vore, for any period this section is operational, according the time schedule of the construction works. • Connection with the Shkozë stabling and maintenance yard: During all stages of works appropriate railway connection will be maintained, by means of turnouts and its connecting line. <p>Civil Works within this Lot include, among others, Civil works for the future electrification system (foundations of electric poles, cable trenches, earthing installations and Construction of drainage.</p> <p>1.2 Lot 2: Durres - Tirana PTT Railway Line, KP 2+000 - KP 20+700, incl. Civil works for the future electrification system (foundations of electric poles, cable trenches, earthing installations);</p> <p>1.3. Lot 3: Durres - Tirana PTT Railway Line, KP 20+700 - KP 33+540. Works within this section include the cross sections of the detailed design to be carried out by the contractor and approved by the Client, including the triangular railway intersection at Domje area;</p> <p>Construction of any auxiliary tracks works in Tirana PTT station during the execution of the detailed engineering design for the future extension of the line towards Tirana City Centre; Construction of drainage works of Kashar and Tirana PTT stations;</p> <p>1.4. Lot 4: Tirana Airport (TIA) railway line connection branch to Durres:</p> <p>(a) Works within this section including the triangular railway intersection at Domje area or alternatively in partial design;</p> <p>(b) Construction of rip - rap, embankments and new rail substructure; (c) Civil works for the future electrification system (foundations of electric poles, cable trenches, earthing installations);</p> <p>(d) Construction of new single-track railway corridor to Tirana International Airport and connecting branch towards Durres, along with the connections with the Durres – Tirana PTT railway line (triangular railway intersection at Domje area);</p> <p>(e) Construction of Passing Loop, and TIA railway stations' tracks and turnouts; (f) Construction of drainage works of TIA station; (g) Construction of University Stop and TIA stations' platforms;</p> <p>(h) Construction of retaining walls along the section as needed; (i) Construction corridor fencing;</p> <p>1.5 Lot 5: Signalling and telecommunication systems:</p> <p>1.5.1 Works for signalling and telecommand system</p> <p>(1) Scope of work incl. Supply, installation and commissioning of the signalling and telecommand ETCS level 1 system, (expandable to ETCS level 2 in the future) in train stations and between stations of the Durres – Tirana railway line intersection to the Tirana International Airport (TIA)</p> <p>(2) Safety requirements: For signalling and telecommand system safety level SIL 4 is adopted;</p> <p>(3) Technical devices signalling telecommand system of the railway stations, open line signalling equipment rooms and interstation sections and applications, and the Traffic Control Centre (TCC)</p> <p>(4) Controlled facilities controlled and managed by the system</p> <p>(a) Electric turnout machine controls; (b) Signals and the other necessary permanent signalling according to the requirements of the specific regulatory framework of HSH; (c) Axle-counters equipment for detection of trains in stations /between; (d) European Train Control System /ETCS</p>	4
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	<p>(e) Power supply systems: The contractor must calculate the required power consumption and deliver, install/put into operation necessary power supply signalling and telecommand equipment</p> <p>(5) Traffic Control Centre (TCC) all necessary equipment for centralized dispatching of train traffic and shunting in the Durres –Tirana railway line, including the new line from the Domje railway intersection to the Tirana International Airport, from TCC office located in Shkozet Station</p> <p>(6) Technical facilities at stations where construct or arrange technical rooms with special technical facilities for electronic interlocking equipment at stations of Durres, Shkozet, Sukthi, Vore, Kashar, Tirana PTT, Airport;</p> <p>(7) Equipment for signalling and telecommand monitoring system (ERTMS);</p> <p>(i) The contractor installs the technical rooms (including workstations in Station's Master room) and put into operation for the control and management of the Signalling and Telecommand system;</p> <p>(ii) The contractor delivers, install and operate all of the equipment necessary to equip the railway line between stations Durres –Tirana, Vore Station & Kashar Station to the airport terminal station;</p> <p>(iii) The contractor installs and operate the Traffic Control Centre (TCC) to be set up in the Shkozet Station building, electrical, ergonomics, Works for proper rearrangement of the Shkozet Station.</p> <p>(8) Automatic Level Crossing Protection Systems (LCPS): automatic road and pedestrian level crossing protection systems within Stations' control areas in the open line; and (9) Staff Training: Contractor shall provide the necessary staff training and familiarization with new equipment</p> <p>(10) Design; (11) Interfaces requires to the Telecommunication, and Power supply system</p> <p>(12) Additional Services, (Signalling and Telecommand System, civil works, E/M works, earthing and lightning protection works, testing and commissioning, software and hardware equipment) and submit for approval Implementation Design Studies for Signalling and Telecommand system.</p> <p>1.5.2 Works for telecommunication, where:</p> <p>(1) Scope of the telecommunication system incl. the contractor must deliver, install and put in operation the whole necessary equipment for the CCS system of the operational points: Durres, Shkozet, Sukthi, Vore, Kashar, Tirana Public Transport Terminal, the new terminal of Rinas airport as well as their connection with telecommunication centre in the Shkozet Station;</p> <p>(2) Transmission medium: The contractor must deliver, lay in the ground and put in operation optical cables from the technical building at Shkozet Station to the technical rooms in Durres, Tirana PPT and the new terminal of Rinas airport;</p> <p>(3) High-speed digital transmission system – (SDH/STM16): The contractor must deliver, install and put in operation the High-speed digital transmission system SDH/STM16 for the implementation of a highway transport network of the telecommunication connection;</p> <p>(4) Access systems / multiplexer equipment: installation and putting in operation of an Access system (Multiplex equipment for low-frequency connections) and the required installation for realizing a low-speed digital interface (n x 64), LF (low frequency) interface and others.</p> <p>(5) Specialized communications, the contractor delivers, install and put in operation the facilities for the following specialized telecommunication connections:</p> <p>(i) Inter-station direct telephone connection; (ii) train traffic control connection; (iii) Telephone connection for general usage (automatic telephones). Technical requirements for the different specialized connections will be reinstalled in new positions according to the new arrangement of TCC and Station Master's rooms, and supplied by uninterruptable power supply network Station.</p>	
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	<p>(6) Data transmission backbone network incl. the design provides for the delivery, installation and putting in operation by the Contractor of a high-speed network for the transmission of voice and data with speeds not slower than 1 GB/s and a tie-in of possible local networks to it.</p> <p>(7) Systems for local services: Not included in the scope of works. The system will be designed to support future installation of: (a) Passenger information systems (announcement systems in stations); (b) Station clocks; (c) Information boards for passengers in waiting areas and platforms; (d) Video-surveillance of stations' critical areas; (e) Loudspeaker passenger announcement system; (f) Ticketing machines;</p> <p>(8) Network Management System (NMS): The contractor delivers, install and put in operation all of the required equipment for the Centre for control and management of all devices and systems (Network Management System), located in telecommunication centre at the Shkozë Station.</p> <p>(9) Technical facilities where the contractor must install the equipment of the telecommunication system in special existing or newly constructed (in case the existing ones do not comply with the technical requirements) technical rooms in stations (Signalling and Telecommand systems);</p> <p>(10) Radio telecommunication equipment: The main equipment, if needed, will be reinstalled in new positions according to the new arrangement of TCC and Station Master's rooms, and supplied by the uninterruptable power supply network of each Station</p> <p>(11) Training: The contractor must provide the necessary training, familiarizing the corresponding personnel with the new equipment, (Telecommunication) and (Signalling and Telecommand).</p> <p>(12) Project documentation; (13) Additional services: The contractor provides additional services.</p>	
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Reform measure: Better marine and maritime governance and services		Stage of reform implementation
Activities planned for 2021	Finalization of the legal framework on maritime tourism activities National Council of Territory approved with the Decision no.2, of 28.07.2020, "On the determination of Maritime tourism priority areas and the approval of maritime activities map", which has identified 60 areas for the development of maritime tourism activities and the maritime activities map for every single area.	
	The Decision of Council of Ministers No 845 of 28.10.2020 "On the approval of detailed rules for the development of maritime tourism activities carried out by vessels for tourist and entertainment purposes" was approved. This act determines the detailed rules for the exercise of any type of maritime tourism activities (sailing for fun, underwater fishing, relaxing diving, kite surfing, windsurf, wakeboard, water jet ski, rafting, kayak), the tourist vessels in use, other tools and equipment, the necessary infrastructure for their exercise, the rules to achieve the safety standards of services.	
	The Minister of Tourism and Environment with the Order No 344 of 31.12.2020 approved the Ethic Code for Maritime Tourism Operators, which introduced the best criteria, procedures and practices to be respected, on the benefits of natural and cultural heritage	
Description of implementation and explanation if partial or no implementation	<p>Certification of maritime tourism operators</p> <p>The certification of the maritime tourism operators is performed based on the instruction no. 4, dated 31.12.2020 "On the criteria and procedures for the certification of maritime tourism operators". To date, the Ministry of Tourism and Environment has received 8 requests for certification for the exercise of maritime tourism operator activity, of which:</p> <p>5 subjects are certified;</p> <p>2 subjects were rejected, as they did not meet the set criteria;</p> <p>1 subject is in the review process by the Commission.</p>	

Reform measure: Strengthening the fight against informality		Stage of reform implementation
Activities planned for 2021	Introducing new risk criteria (3) for identifying non-compliant taxpayers, aiming under declared wages and transactions	5
	Increased VAT revenue (5%)	5
	Increased no. of Personal Income Tax' returns submitted from individuals	5
	Level of completion (50%) - Building the Data Warehouse and populating it with internal and third parties' data	3
	Level of completion (70%) - Building the Banking Accounts' Register	5
	Level of completion - Building the taxpayers' Register of Assets	3
	Identifying risks presented by the high wealth individuals' segment (60%). Gathering needed data from various sources, including data from Automatic Exchange of Information.	4
Description of implementation and explanation if partial or no implementation	Introducing new risk criteria for identifying non-compliant taxpayers, aiming under declared wages and transactions.	
	Work completed 100%. Altogether 9 new risk criteria for identifying non-compliant taxpayers were approved in the Compliance Committee.	
	Increased VAT revenue	
	20% more VAT collected in Jan-Aug 2021, compared to Jan-Aug 2020.	
	Increased no. of Personal Income Tax' returns submitted from individuals	
	Level of completion - Building the Data Warehouse and populating it with internal and third parties' data	
	Currently data are received from third parties such as EDO (Electricity Distribution Operator), TWS (Tirana Water and Sanitation), Tirana Municipality, General Directorate of Customs, Notary Chamber, EPCA (Electronic and Postal Communications' Authority), GDRTS (General Directorate of Road Transport Services), etc. (raw information), as well as data from the actual registers administered by the Tax Administration, such as AEOI (automatic exchange of information), the tax system E-tax, the central register of bank accounts and data from the new fiscalization system. This process is ongoing and data will continue to be retrieved periodically.	
	Level of completion - Building the Banking Accounts' Register	
	Work completed 100%.	
	Level of completion - Building the taxpayers' Register of Assets	
	It is under construction and will be part of the fiscalization's CPCM system	
	Identifying risks presented by the high wealth individuals' segment. Gathering needed data from various sources, including data from Automatic Exchange of Information.	
Achieved: Drafting and approval of Internal Manual and Risk Methodology for the Specialized Audit Dept. Ongoing: building a database of first 100 high wealth individuals; drafting the Compliance Program.		

Reform measure: Developing a legal framework to support innovative start-ups		Stage of reform implementation
Activities planned for 2021	<ul style="list-style-type: none"> - Development of project fiches under the Prime Minister's Office – Entrepreneurship Programme; (EU for Innovation) - Support the selected local governments in developing the local entrepreneurship ecosystems; (EU for Innovation) - Training of selected government officials in Innovation Management; (EU for Innovation) 	

	<ul style="list-style-type: none"> - Support the bridging of the start-up ecosystem with the business community. (EU for Innovation) - Continued/follow up support for incubation and acceleration programmes in Albania. (EU for Innovation) - Setting up a multi-university incubation programme (Tirana Inc) for students in Albania; implemented(EU for Innovation) - Linkages and networking activities for connecting Albanian start-ups and other stakeholders with regional and EU counterparts; (EU for Innovation) - Continue to reach out to Diaspora and involve them in building the ecosystem and connecting with the stakeholders. (EU for Innovation) 	
	<ul style="list-style-type: none"> - Adoption of the law on start-ups (MFE and MHSP) - Drafting and adoption of the policy framework and supportive schemes with focus on innovative product or service and new business model; (Start-up Agency) - Establishment of the state agency "Start-up Albania", composed of government officials and ecosystem stakeholders, which will work on and propose the bylaws and other measures/schemes in supporting the development of the innovation and entrepreneurship ecosystem in Albania (MFE and MSHMS) - Development of a strategy for the Start-up Albania Agency, including a brand for the Albanian start-up and innovation ecosystem to enable the effective communication of the comparative advantages of the Albanian ecosystem (KM) - Analysis on creating a financial support scheme for accelerating start-ups in growth phase, as well as support for incubators and accelerators (Start-up Agency) - Drafting and adoption of bylaws based on the adopted law (Start-up Agency) 	Not implemented

Reform measure: Improving access to finance for SMEs		Stage of reform implementation
Activities planned for 2021	Establishment of a dedicated unit within the MOFE to promote SMEs development (MFE)	Not implemented
	<ul style="list-style-type: none"> - Finalization of an analysis of the current situation and recommendations for the Government in setting up policies for the digitalization of SMEs and improving their access to ICT (MFE) - Establishment of a centralized information platform for the financial resources from donors, private and public sectors- accessible by SME (MFE, AIDA) - Implementation of SMEs state budget support scheme (MFE) - Review of the effectiveness of state budget grants (MFE) - Encourage stakeholders to make better use of opportunities offered by EU programmes (COSME) (MFE, AIDA) 	implemented
	- Monitoring the implementation of the Action Plan on e-commerce (MFE)	Not implemented

Reform measure: Improving institutional, financial and human capacities for research and innovation		Stage of reform implementation
Activities planned for 2021	Capacity building for research, development and innovation within universities. In particular, the research infrastructure will continue to be supported based on performance monitoring. (MES and NASRI).	4
	Introduction of indicators in the statistical program for the production of statistics and reliable data on science and technology. (NASRI and INSTAT).	1
	The implementation of the steps foreseen in the drafting plan of S3 continue until the end. (MES and Inter-Institutional Working Group).	3
	Involvement of the diaspora in research and development projects	3
	Improving the legal framework in order to increase the number of valid	4

	applications in EU programs and the number of winning projects. (DCM on academic degrees, load of university staff, special status of academic staff, instruction / regulation NASRI / MES / MFE for IPA applicants, etc.).	
	Improve and support the H2020 NCP network and participate in ERA Committees and national / international meetings by establishing methodology and allocating funds to ensure participation.	3
Description of implementation and explanation if partial or no implementation	NASRI's funding of research infrastructure and research work in HEIs has continued. The number of HEIs and other research institutions that have benefited has increased. Budget allocated and has increased.	
	<p>Researchers from the diaspora have also participated in the bilateral research projects of Albanian universities with those of the EU, in the framework of H2020.</p> <p>Under the current Austrian Eureka Chairmanship, Albania was voted and became a full member of Eureka Network.</p> <p>Following the launch of Horizon Europe, Albania is preparing the necessary documentation for participation as well as for the ratification of the agreement for participation in Horizon Europe.</p> <p>The cooperation agreement between NASRI and INSTAT, for the production of statistics for scientific research, has been concluded.</p>	

Reform measure: Development of the broadband infrastructure for digital economy		Stage of reform implementation
Activities planned for 2021	Adoption of the new law on electronic communications, in line with the new European Electronic Communication Code approved by the EU in 2018;	1
	Pilot project for development of broadband infrastructure in Zone 1 (rural and remote/tourism areas in north part of Albania (Shkodër, Kukës, Tropojë, Dibër);	1
	Broadband Development in south part of the country (for broadband development in white areas Vlora, Gjirokastra, Fier, Berat, Korçë);	1
Description of implementation and explanation if partial or no implementation	Preparation for Adoption of the new law on electronic communications, in line with the new European Electronic Communication Code approved by the EU in 2018 started;	
	Pilot project for development of broadband infrastructure in Zone 1 (rural and remote/tourism areas in north part of Albania (Shkodër, Kukës, Tropojë, Dibër) – ToRs for DD, ESIA and TD approved; TA to be started within October 2021;	
	Broadband Development in south part of the country (for broadband development in white areas Vlora, Gjirokastra, Fier, Berat, Korçë) - ToRs for DD, ESIA and TD approved; TA to be started within October 2021;	

Reform measure: Finalize and support the implementation of pre-university curricular reform, teacher training and employment		Stage of reform implementation
Activities planned for 2021	Review of the curriculum for basic education based on the results of internal and external evaluation.	Completed Stage 5
	Capacity building and training of 1180 ToT (professional network leaders), for competency-based curricula as well as the use of online platforms in the learning process	Completed Stage 5
	Establishment of lifelong learning training centers in universities for the organization of teacher training in pre-university education.	Completed Stage 5
	Employment / recruitment of teachers in the Teacher Portal for Albania through file evaluation and digital testing.	5
	Capacity building and staff training in local educational units (responsible for pre-university education) for the implementation of quality assurance guidelines (200 trained and mentored specialists).	Completed Stage 5

	Training of 4800 preschool principals and teachers of children aged 3-6, on the new curriculum documentation.	Completed Stage 5
	Training of 1100 teachers and implementation of the program "Schools of the 21st Century" for 20,000 students.	Completed Stage 5
Description of implementation and explanation if partial or no implementation	<p>Review of the curriculum for basic education based on the results of internal and external evaluation;</p> <p>During the school year 2020 - 2021, the curriculum with competencies is implemented in all grades 1 -12 of the pre-university education system. National tests were applied with the competency curriculum at the end of the 9th grade of lower secondary education and upper secondary education. At the end of the piloting and implementation in the system of competency-based curriculum, QAAPUE conducted an external evaluation of this curriculum supported by UNICEF. Also in this context QAAPUE has been developed supporting materials and guidelines for the implementation of the competency curriculum mainly in the design of competency tests</p>	
	<p>Capacity building and training of 1180 ToT (professional network leaders), for competency-based curricula as well as the use of online platforms in the learning process;⁹⁶</p> <p>Regarding to the professional development of teachers, the functioning of professional networks of teachers has continued according to the respective profiles or according to the roles of teachers in the school. During the period 2019-2020, in the conditions created by the COVID 19 pandemic, 1180 professional network leaders were trained to implement the guidelines developed by QAAPUE regarding the development of home-based learning (online), regarding the end of the 2019-2020 school year with the distance learning process and with the assessment of the student, regarding the drafting of subject plans, teaching and learning process etc</p>	
	<p>Establishment of lifelong learning training centres in universities for the organization of teacher training in pre-university education</p> <p>8 training centres have been established at 8 universities in Albania supported by the Erasmus + TEAVET project "" Development of teachers' competencies for a comprehensive system of Vocational training of teachers "of the European Commission. These training centers have conducted trainings with 2342 teachers of pre-university education with accredited modules.</p>	
	<p>Employment / recruitment of teachers in the Teacher Portal for Albania through file evaluation and digital testing.</p> <p>Capacity building and staff training in local educational units (responsible for pre-university education) for the implementation of quality assurance guidelines (200 trained and mentored specialists.</p> <p>QAAPUE has constant communication and continuously trains DRAP and ZVAP specialists regarding the implementation of documents prepared by QAAPUE especially for the development of the learning process in the conditions of the COVID 19 pandemic. 200 specialists have been trained for the implementation of quality assurance guidelines. The training of school leaders for the implementation of these guidelines continues,</p>	
	<p>Training of 4800 preschool principals and teachers of children aged 3-6, on the new curriculum documentation.</p> <p>New documents for preschool education have been drafted related to the curricular framework of preschool education, the value framework and the</p>	

⁹⁶ One TOT (trainer of trainers) trains around 20-25 teachers of the same profile

	standards of development and learning of children aged 3-6. During the period 2020-2021, 4800 teachers and leaders of preschool education have been trained for the implementation of these documents.	
	Training of 1100 teachers and implementation of the program "Schools of the 21st Century" for 20,000 students.	
	During 2020-2021, about 1200 teachers were trained by QAAPEU in collaboration with British Council on the implementing the program of 21st Century Schools for 20000 students	

Reform measure: Inclusiveness and equality in education		Stage of reform implementation
Activities planned for 2021	Inclusion of 8th grade in the 'free textbook' policy and 16 categories of social strata in need.	5
	Providing additional support teachers for students with disabilities and teachers who know the Albanian sign language for deaf students	5
	Reducing the number of schools with collective classes and the number of respective students	
	Increasing the quality and psycho-social service for all students	
	Training of 42 ToT (heads of professional networks of assistant teachers) and assistant teachers	5
Description of implementation and explanation if partial or no implementation	For the school year 2021-2022, 8 th grade and 9 th grade is included in the 'free textbooks' policy.	
	Number of Support teachers in scholar year 2020-2021 is 1275.	

Reform measure: Improving the employability of the most vulnerable unemployed jobseekers especially those affected by COVID-19, through new and revised EPPs and employment services		Stage of reform implementation
Activities planned for 2021	Continue the operationalization of NAES functions and capacity support to NAES staff at all levels.	4
	Finalization of NAES information system	3
	Profiling of jobseekers and the development of individual employment plans.	5
	The implementation of employment promotion programs focused on COVID-19 dedicated 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 6.7%.	4
	Drafting Youth guarantee program (DCM) targeting youth unemployment especially NEET.	2
	Implementation of the agreements signed with municipalities in uncovered areas.	5
	Undertaking a Skills Needs Analysis.	2
	Maximizing the interaction and improving the targeting of active labour market policies and implement the prepared Vocational Education and Training reform package including upskilling and reskilling, through a referral system for the pursuit of jobseekers who receive vocational training services, job mediation or employment promotion programs, within "Start Smart" Course and / or vocational training courses.	4
	Conduct a process evaluation on the implementation of the reformed Employment Promotion Packages (EPPs) and the programmes that address the context after COVID-19.	3

Reform measure: Strengthen and expand social protection coverage reducing inequality and supporting inclusive and sustainable growth		Stage of reform implementation
Activities planned for 2021	Assessment of adequacy of economic aid benefits taking into account the data from the Survey on Income and Living Conditions and establishing a	

	transparent mechanism for their regular annual review	
	Implement the bio-psycho-social evaluation scheme to support with persons with disabilities with combined cash support and social care in three regions (Tirana, Durres and Elbasan)	
	Support persons from disadvantaged backgrounds, especially beneficiaries of economic aid and persons with disability through toward employment in social enterprises. Financing of social enterprises	
	Improve delivery of community-based social services by local government units to all categories in need within the frame of Social Fund	
	Assessment of all public residential care institutions and develop their transformation plan.	
	Draft National Action Plans for social inclusion and poverty reduction through enhanced policy-making and indicators	
Description of implementation and explanation if partial or no implementation	The MoHSP has set up an inter-institutional working group with representatives from the Ministry of Health and Social Protection, the State Social Service, the Ministry of Finance and Economy and the Institute of Statistics. This working group was set up based on Order no. 269, dated 28.05.2021 of the Ministry of Health and Social Protection and has prepared the draft document on revising the amount of benefit and a roadmap for their regular review.	3
	The bio-psycho-social evaluation scheme to support with persons with disabilities with combined cash support and social care is being implemented in three regions Tirana, Durres and Elbasan.	5
	To date, 8 NGOs have assumed the status of Social Enterprises.	3
	The financing of 12 specialized services has continued at the regional level, and for the first time, in 2021, the family assistance service is funded in Tirana Region.	4
	The technical group set up, with the Order of Minister no. 548/2020 "On establishment of Steering Committee for the implementation of DEI National Plan", has already drafted and endorsed, the methodology for assessing current human and financial resources for the functioning of the 9 existing Public Social Care Institutions. The initial assessment process, has not yet begun as a result of the Covid-19 pandemic.	3
	Albanian government has approved national documents with new indicators based on international documents to monitor the situation of social-economic rights in the country. Strategy for Gender and Social Inclusion 2021-2030; National Action Plan for Persons with Disability 2021-2025 have been approved with new frameworks of indicators. MHSP has drafted the monitoring report for the Social Inclusion Policy document. The approval of NAP for Roma and Egyptian community and National Agenda of the Rights for Children is in process.	3

Reform measure: Deepening economic integration		Stage of reform implementation
Activities planned for 2021	Validation of AEO <ul style="list-style-type: none"> - Organisation of public awareness campaigns with business representatives and trade unions representatives on the promoting the benefits / advantages / authorisation requirements of the AEOs. - Submission of the application for AEO validation to the CEFTA Secretariat, by Albania. - Implementation of cross border projects 	
	During 2020 – 2021 it is performed the study on architecture how the NCTS and Single Window project will be designed.	
Description of implementation and explanation if partial or no implementation	Review of the existing physical condition and equipment and projected needs with North Macedonia. - Signed agreement between Albania and North Macedonia in July 2021 for establishing joint crossing points	

ANNEX II

Reform measures in ERP 2021-2023	Key structural challenges (Commission assessment of ERP 2020-2022)	ERP Policy Guidance 2021	Enlargement Package 2021	Sustainable Development Goals 2020-2030	European Green Deal / Green Agenda for Western Balkans	European Digital Agenda / Digital Agenda of Western Balkans	IPA III projects supporting this reform
<i>Further liberalisation of the energy market</i>	Key challenge #2			SDG 7	Both measures of this reform are in line with EU Green Deal Principles on ensuring a secure and affordable energy supply on a functional digital energy Market (ALPEX) and through the improvements of the energy performance in buildings and industry as prescribed in the measure above with each activity. Targets in EU Green Deal are in accordance with National objectives in National Strategy Of Energy And in the draft NCEP in phase of approval.	ICT application on several fields sensibly that influences the way how will be built in the future are part of the measures. Can be mentioned here Digital ALPEX that will perform online as a power exchange in real time; Smart city projects under development from AEE; Energy Grid; Smart appliances can make consumers aware of the energy used, and help them to reduce their energy consumption in real time, change their behaviour towards energy use and save money on their energy bills, etc.	N/A
<i>Diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements</i>	Key challenge #2						GATE project completes the implementation of the project May 2022; The Reehub + project completes the project within 2022
<i>Rehabilitation and construction of the railway segment Durrës-Tirana</i>			IV. Investing in sustainable transport The EU will prioritise projects and programmes on the indicative extension of the Trans-European Transport Network (TEN-T) core network which are of strategic interest to the region and to the EU. Action will be taken to speed up construction of new transport infrastructure and the	SDG 1, 9, 10, 15, 16, 17	New reform areas Green transition to a more environmentally sustainable, low-carbon, climate-resilient and circular economy which can be a driver for long-term robust economic growth, while reducing environmental risks and preserving the biological diversity of the region	The creation of these links will drive investment, facilitate regional trade and deliver sustainable economic growth, improving the daily lives of people in the region. Advantage will be taken of new digital technologies, with improvements to information systems, prioritising road safety (and eliminating high-risk road sections and level crossings with railways), and assisting in the design and implementation of maintenance schemes. Work with the Transport	Objective, project purpose and components of the project: Improving the rail strategy reform, promoting smart, sustainable, inclusive, safe transport and removing bottlenecks in key network infrastructures, by investing in projects with high EU value-added.

			upgrading of existing infrastructure, with the objective of bringing the core transport network up to EU standards. Fast and efficient transport links, both within the region and with the neighbouring EU Member States, and sustainable transport with further investment in rail and inland waterways are crucial. In this context, to further spur regional cooperation and integration, connecting capitals in the region and with the EU will be an important priority, as well as promotion of multimodal transport solutions and modal shift, and reducing transport related pollution.			Community will be further intensified to support the creation of a fully integrated regional transport market based on the European Union's legislation and standards. This will greatly speed up the implementation of technical standards and connectivity reform measures, including aligning and simplifying border crossing procedures, and following through on rail reforms (including rail unbundling and third party access), especially to overcome the legacy of fragmented networks. It will pave the way to a seamless integration of the Western Balkan transport markets into the EU, which will in turn offer new business opportunities for companies and people in the region	The investments should be prioritised according to their relevance to TEN-T connections with the EU, contribution to sustainable mobility, reduced emissions, environmental impact, safe mobility, in synergy with the reforms promoted by the Transport Community Treaty as in the IPA III Agreement Annex Albania State of implementation: Ongoing through the IPA III Agreement in public consultation/adoption 1.9 mn euros rail and 0.4 mn euros sea
<i>Reform on the Water and Waste Water Sector</i>							
<i>Better marine and maritime governance and services</i>							
<i>Strengthening the fight against informality</i>		PG 4					

<i>Developing a legal framework in support of innovative start-ups</i>	Key challenge #3	PG 5					
<i>Improving access to finance for SMEs</i>	Key challenge #3	PG 4	This reform aims to improve the overall business environment in which small and medium-sized enterprises (SMEs) operate.	SDG 8, 9, 17		<p>This measure aims to:</p> <ul style="list-style-type: none"> - Improve SMEs' competitiveness and access to markets by helping them to adopt digital solutions for e-commerce and e-business - Strengthen digital capabilities and skills of SMEs - Ensure a sound business and regulatory environment for e-commerce to support entrepreneurs and SMEs using synergies with measures foreseen in the new Digital Agenda and CRM 2021-2024. 	
<i>Modernisation of retail payment instruments</i>	Key challenge #3	n/a	There is no specific recommendation in the Enlargement package. The reform however, aims to fill the objectives of Albania's national retail payments strategy (NRPS) for 2018-2023, via with the adoption of the law on payment services and law on payment accounts, which aims at alignment with the relevant EU Directives, under chapter 4 of the acquis.	n/a	n/a	n/a	n/a

<i>Improving institutional, financial and human capacities for research and innovation</i>	<i>Key challenge #1</i>				No recommendations		The only planned assistance that corresponds to this area is a twinning regarding improving of capacities on National Agency for Scientific Research and Innovation regarding approximation of legislation in the area of scientific research with respective EU legislation. This project did not yet started implementation.
<i>Development of the broadband infrastructure for digital economy</i>			The EU's Economic and Investment Plan for the Western Balkans will provide a major stimulus to the region in grants and guarantees that are set to leverage investments of up to EUR 20 billion. This Plan, representing around one third of the region's GDP, will provide funds for sustainable infrastructure (transport, energy, digital), connecting the region within and with the EU, the twin green and digital transition as well as	SDG 9.c	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 Commission will explore measures to ensure that digital technologies such as artificial intelligence, 5G, cloud and edge computing and the internet of things can accelerate and maximise the impact of policies to deal with climate change and protect the environment. Digitalisation also presents new opportunities for distance monitoring of air and water pollution, or for	Development of digital infrastructure/ broadband for a future digital economy and society is fully in line with the EU Digital Agenda and in line with national and regional strategic framework. Albania aims to close the digital gap and to ensure economic growth and competitiveness by creating an investment-friendly environment for the private sector.	Public investment for developing public broadband networks is currently not eligible under IPA multi-regional programmes.

			post-pandemic recovery of the private sector. It will make a real difference in bridging the socio-economic gap between the Western Balkans and the EU.		monitoring and optimising how energy and natural resources are used’.		
<i>Facilitating cross border movement of goods</i>							
<i>Finalize and support the implementation of pre-university curricular reform, teacher training and employment</i>	Key challenge #3		No recommendations	SDG 4	No recommendations	New reform measure proposed for 2022-2024 Reform measure 19: Development and empowerment of digital competency	There are no approved projects or planned projects under IPA III that support this measure.
<i>Inclusiveness and equality in education</i>	Key challenge #3		No recommendations	SDG 4	No recommendations	New reform measure proposed for 2022-2024 Reform measure 19: Development and empowerment of digital competency “Enhancing digital literacy, skills and inclusion; The digital era should be about empowerment and emancipation, background or skills should not be a barrier to accessing this potential.	There are no approved projects or planned projects under IPA III that support this measure. Under IPA II the reform is supported by “EU for social inclusion intervention. This intervention includes Ministry of Health and Social Protection, Ministry of Finance and Economy and Ministry of

							Education and Sports. In regard to MES areas of competence this project supports inclusion in curricula of equality in education practices, appointment of psychosocial services at school level with relevant material.
<i>Improve the quality and coverage of VET while ensuring linkages with the labour market</i>	Key challenge #1						
<i>Improving the employability of the most vulnerable unemployed jobseekers through better targeted EPPs and employment services</i>	Key challenge #1	PG 6		SDG 8	Not target	Significant objective	
<i>Strengthen and expand health and social protection coverage reducing inequality and supporting inclusive and sustainable growth</i>		PG 6					

<i>Increasing access to healthcare</i>		PG 6					
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ANNEX III

EXTERNAL CONTRIBUTIONS TO THE ERP 2022-2024

The Economic Reform Programme 2022-2024 was made shared for public consultation in the official website of the Ministry of Finance and Economy, from 22 December 2021 until 31 January 2022 (link: <https://www.financa.gov.al/programi-i-reformave-ekonomike/>). Additionally, in accordance with the provisions of law no. 146/2014 “On notification and public consultation” the draft Economic Reform Programme 2022-2024 was published in the national electronic register for public notifications and consultations (link: <http://konsultimipublik.gov.al/Konsultime/Detaje/439>).

Within the reasonable limits of time that the preparation of the Economic Reform Programme allows for and the need to approve and submit the ERP 2022-2024 within 31 January 2022, no comments, feedback, suggestions or replies were received by the Ministry of Finance and Economy as a result of either of the aforementioned public consultation processes.

