



REPUBLIC OF ALBANIA

ALBANIA'S ECONOMIC REFORM PROGRAMME

2016-2018

Table of Contents

1. Overall policy framework and objectives	3
2. Macroeconomic framework	6
2.1. Recent economic developments	8
2.2. Medium-term macroeconomic scenario	9
2.3. Alternative scenarios and risks	20
3. Fiscal framework	20
3.1. Policy strategy and medium-term objectives	20
3.2. Budget implementation in 2015	22
3.3. Medium-term budgetary outlook	32
3.4. Structural balance (cyclical component of the deficit, one-off and temporary measures, fiscal stance)	42
3.5. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments	45
3.6. Sensitivity analysis and comparison with the previous program	51
3.7. Sustainability of public finances	54
3.8. Institutional features	55
4. Structural reform priorities in 2016-2018	56
4.1. Identification of key obstacles to growth and competitiveness	56
4.2. Structural reform priorities by area	56
4.2.1. Public finance management	56
4.2.2. Infrastructure	59
4.2.3. Sector developments	66
4.2.4. Business environment, corporate governance and reduction of the informal economy	71
4.2.5. Technological absorption and innovation	77
4.2.6. Trade integration	82
4.2.7. Employment and labour markets	87
4.2.8. Fostering social inclusion, combatting poverty and promoting equal opportunities	91
4.3. Summary of reform priorities	96
5. Budgetary implications of structural reforms	96
6. Institutional issues and stakeholder involvement	97
Annex 1	99
Annex 2	138

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Government of Albania, in accordance with the commitments under the European adhesion process, has adopted and implemented over the last two years policies oriented toward creating a well-structured market economy capable of coping with competitive pressures and market forces once Albania joins the European Union.

Albania's Economic Reform Programme 2016 - 2018 outlines the main macroeconomic and fiscal policy aspects as well as priority structural reforms planned by the Government of Albania (GoA) in the medium term future for strengthening the domestic economy and stimulating sustainable growth and increased competitiveness. As a result, GoA's priorities are geared toward fiscal consolidation and strengthened public expenditure management, reduction of infrastructure deficits, regulatory and institutional reform and improvement of social protection systems. The planned reforms are geared towards addressing binding constraints to growth and boosting competitiveness, enabling Albania to compete and effectively participate in the regional and global value chains.

Our economic policies seek to generate sustained medium term growth that results in tangible gains, including employment generation and a sustained improvement in the standard of living of Albanians. Achieving these goals will require sustained efforts to enhance macroeconomic stability, notably, reducing debt related vulnerabilities, by putting public finances on a sustainable footing, and unlocking structural constraints to medium term growth.

Fiscal policy in the medium term will be strictly oriented toward fiscal consolidation. We commit to continuing with fiscal consolidation in order to reduce debt-related vulnerabilities which hamper growth and cause macroeconomic instability. In line with the actual program we have with the IMF, we intend to pursue a steady pace of fiscal consolidation based on a sound strategy of broadening the tax base and strengthening tax administration and compliance, with the goal of lowering the public debt-to-GDP ratio to below 64 percent by 2018, from around 72.6 percent expected for end-2015.

At the same time, reforms in the pension system and energy sector are indispensable for having sustainable and growth-promoting public finances. We embarked on deep reforms in both of them, as already reported in previous NERP. The energy reform has already started to yield satisfactory results. Therefore, we aim to limit public guarantees and policy net lending to the sector with the aim of completely eliminating power sector subsidies by 2020.

Monetary policy will continue to support the weak economy by further modest monetary easing, provided inflation and exchange market pressures stay muted. To enhance the monetary policy easing, Bank of Albania has implemented forward guidance and it has communicated its commitment to keep interest rate low until the sustainable return of inflation to the 3% target.

The structural reform priorities derive from the medium term budget and the national strategic documents, portraying the challenges of the Albanian economy while proving to constitute the solution to the obstacles and constraints to growth. The planned reforms are in line with the National Strategy for Development and Integration (NSDI) 2015-2020, Sectorial Strategies, Medium Term Budget Process (MTPB), the Law on Budget for the Year 2016, and other strategic documents such as SEE 2020, SBA, etc. The structural reform priorities have a balanced approach between the necessity to increase the skills in the market and proliferate productivity contributors, to ensure a smooth integration of the economy into regional and European markets. The ERP 2016-2018 encompasses a wide range of structural reforms, complemented with both, soft measure and investment in infrastructure.

The reform measures planned are a response to the necessity for sustainable growth and address the country-specific recommendations (CSRs) proposed to Albania by the Economic and

Financial Dialogue in May 2015. In addition, some of them are a continuation of the reform measures of ERP 2015, enriched with new reform priorities for the upcoming period.

The ERP 2016-2018 presents 17 reform measures covering from further liberalization of the energy market to diversification of energy sources (Gasification), upgrading and construction of Durres Port Infrastructure and the feasibility study for construction and upgrade of the Adriatic-Ionian Corridor. With a particular focus of connectivity and sector development, ERP 2016-2018 presents the reforms for improving the legal and regulatory framework for high speed broadband networks; consolidation and defragmentation of agricultural land and standardization of Tourism Sector.

Private sector development is a priority of the Government of Albanian, and thus ERP 2016-2018 focuses on the reduction of the regulatory burden to business, improve access to finance through effective implementation of the National Plan to reduce the level of the NPL, contribute to the innovation and R&D through the effective implementation of Digital Agenda Strategy and enhancement of institutional capacities for research and innovation. Trade and investment, as part of an integrated regional agenda, addresses the primary needs to attract new investment through a progressive and intensive agenda on trade facilitation and effective implementation of legal instruments for promoting investment.

Improving the skills in the labour market and strengthen the social inclusions are presented in this ERP through reforms to improve the quality and coverage of VET while ensuring linkages with labour market, modernising public employment services and increase employment of women, youth and vulnerable people, strengthening social protection and social inclusion measures and drafting and implementing a competence based curricula and training of teachers.

The preparation of ERP 2016-2018 was the result of a long, constructive and fruitful cooperation among the members of the inter-institutional working group, having representatives from various institutions of the Government and the Bank of Albania (BoA). Stakeholder engagement is considered an important support in the policymaking process and their involvement in the preparation of ERP has been beneficial throughout the process. The reforms presented by the institutions involved in the drafting of ERP were consulted with the relevant stakeholders on separate roundtables for each respective area. Their opinions were deliberated and, to the extent possible, reflected in the consolidated version of the ERP 2016-2018. The Ministry of Economic Development, Tourism, Trade and Entrepreneurship (MEDTTE) has also monitored the progress and implementation of the reforms presented in Albania's National Economic Reform Programme 2015-2017 (ERP 2015) to allow a logical continuation of the reforms and ensure sustainability in the reform priority agenda.

The MEDTTE, as lead institution in the preparation of ERP 2016-2018, has widely consulted the program with donors and international institutions with a view to enrich the document with opinions and approaches of different stakeholders. A high level roundtable was organised on January 13, 2016, with representatives from international financial institutions and their comments and suggestions were considered.

ERP 2016-2018 will, be presented to the national Parliamentary Commissions: Commission for Economy and Finance and Commission for Productive Activities, Trade and Environment.

In accordance with the government's commitment for the adoption and implementation of the reforms included in the ERP, the latter was adopted by the Decision of the Council of Ministers no. 52, dated 27.01.2016 "For the adoption of the Economic Reform Programme (ERP) 2016-2018".

The Government is determined to ensure that reforms are implemented effectively so as to ensure that economic growth recovery is deepened and broadened, and, most importantly, that it is felt directly in the lives of the people of the country.

ERP 2015 recommendations and state of play:

ERP 2015 recommendation 1: *'Pursue fiscal consolidation in line with the objective to put the public debt ratio on a downward path and lower it to less than 66 % of GDP by 2017. At the same time, preserve fiscal space for growth-enhancing public investment by making sure that revenue performance remains on track, allowing for the initially budgeted capital expenditure to be executed.'*

In order to address the problems of revenue underperformance, GoA in early September 2015, launched a large-scale reform effort against tax evasion, non-compliance, and informality among other measures.

ERP 2015 recommendation 2: *'Progress towards eliminating high fiscal risks posed by the electricity sector by reducing distribution losses at an average rate of 5 percentage points in the coming years and by improving the bill collection rate. Evaluate the fiscal impact of the property compensation scheme and accommodate the costs in the medium-term budget, if necessary by adjusting the parameters of the scheme with the aim of creating a realistic, transparent and sustainable compensation framework.'*

- The measures undertaken for reducing distribution losses yielded a 6% reduction to 31.8% (2015) from 37.8% (2014).
- During the first 10 months of 2015 there was a noticeable improvement in the collection rate, which reached 107% of target. For the same period during 2014 the rate was 88%.

ERP 2015 recommendation 3: *'Reinforce the budget management framework by implementing the public finance management strategy agreed with the Commission and adopted in December 2014, in particular by moving towards adopting a credible fiscal rule which will effectively ensure the sustainability of public finances in the long run and by strengthening budget forecasting.'*

- GoA designed, consulted and concluded with external experts (IMF, etc.) a fiscal responsibility draft law.
- In addition to drafting the fiscal responsibility law, amendment to the Organic Budget Law are seen necessary in order to ensure the short- and long-term sustainability of the public finances. The amendments which are drafted and ready to be send to the Council of Ministers,

ERP 2015 recommendation 4: *'Take further measures to address the issue of non-performing loans, involving all key stakeholders including the Bank of Albania as necessary, with a view to achieving a sustainable reduction of their level. In this context, addressing impediments related to judicial enforcement and collateral execution would appear helpful.'*

- To address this recommendation a High Level and Technical Inter-ministerial Working Group was established by Order of the Prime Minister No. 78, dated 11.06.2015.
- An Action Plan with measures aiming to reduce the NPL level was jointly adopted.
- The implementation of the Action Plan is in progress.

ERP 2015 recommendation 5: *'Adopt and start to implement the law on higher education, as well as the new strategy for higher education. Establish an independent accreditation system for all public and private universities. Continue the restructuring of the vocational education and training system with a view to improving the relevance of the training for the needs of the labour market.'*

- Law No.80/2015,"For higher education and Scientific Research in Higher Education Institutions of the Republic of Albania" has been approved. The drafting of bylaws and implementing provisions is in progress and is expected to finish within mid-2016.
- The law on VET has been prepared and will be adopted within 2016. A number of bylaws (DCM, Instructions, Guidelines, etc.) for the regulation of the activity and functioning of VET providers have been approved.

ERP 2015 recommendation 6: *'Improve the overall business environment, including by implementing the merger of the NRC (National Registration Centre) and NLC (National Licensing Centre) to further ease the regulatory and administrative burden for businesses. Start the implementation of the simplification regime for authorisations. Make the newly established investment council fully operational.'*

- The National Business Centre (NBC) was established by law no. 131, date 26.11.2015, providing a one-stop shop for business registration and licensing.
- The review of authorisations was finalized in 2015 and recommendations for 5 main areas (agriculture and

food, health, industry and energy, finance and customs) are provided.

- The Investment Council, created based on the DCM No 294 dated 08.04.2015 “for the establishment of the Investment Council” is fully operational¹, 4 meetings are held, 3 of which during June-December 2015.

ERP 2015 recommendation 7: ‘Adopt and start to implement the transport strategy and action plan for 2016-2020. Focus investments on the core network. Adopt and start to implement the national energy strategy and the Power Sector Law, including speeding up the unbundling of the energy sector. Prepare single sector pipeline of priority investments for both transport and energy.’

- The Transport Sector Strategy is being drafted with technical assistance support from the European Commission. Its finalization, as a draft, is foreseen to be completed within third quarter of 2016.

- The Energy Strategy 2016-2030 is in the process of being updated and the law on Power Sector (law no. 43/2015), aligned with Directive 2009/72/EC of the European Parliament, was adopted by the Albanian Parliament on 30.04.2015 and entered into force on 13.06.2015.

- The reform of the energy sector is in progress, including improving energy security, developing gas connectivity and diversifying energy supply, in accordance with the European Directives and the Energy Community Treaty, in the framework of the Third Energy Package

- According to the interconnectivity agenda, Albania together with the Western Balkans countries has agreed to a list of investment projects both in energy and transport, which include power interconnectors and reinforcement to the region’s electricity transmission system routes, construction of additional highways that will connect various cities across the Western Balkans. The GoA has drafted a national Single Project Pipeline (SPP) that will focus on four strategic sectors: transport, energy, environment and social infrastructure. SPP aims to complement the wider regional investment projects part of the Berlin Process.

ERP 2015 recommendation 8: ‘Adopt a strategy on the land cadastre and concrete measures to increase momentum in agricultural land consolidation.’

The strategy on Land Consolidation is being drafted under the framework of FAO technical assistance.

Meanwhile, during 2015, a number of relevant legal acts were adopted, as follows:

- DCM no. 337, dated 22.04.2015 “Procedures for determining the performance of the process of transferring agricultural land to former agricultural enterprises owned by beneficiaries”;
- DCM no. 338, dated 22.04.2015 “On some amendments to DCM no.253, dated 6.3.2013 “Procedures for determining the fulfilment of acts of taking agricultural land owned for agricultural families in the villages of former agricultural cooperatives”;
- DCM no. 994, dated 9.12.2015 “For the procedures of the registration of the property titles”

2. MACROECONOMIC FRAMEWORK

Development of the world economy and outlook

Global economic activity has gradually recovered during the first half of 2015. After the slowdown of economic growth in the first quarter, as a result of the economic slowdown in the US and some major developing countries, the global economy is restored to the previous pace, but with significant differences between regions. Global inflationary pressures remain tight, affected by the decline in the price of oil and its derivatives, during the previous year. Despite the easier monetary conditions, euro area economic recovery remains weak and segmented, without being able to translate into significant gains in the labour market for many of the member countries. Consumption remains tight and more than half of growth stems from changes in inventories.

Growth in exports, strengthening of private consumption and credit growth, has supported in different measures the economic performance of countries in the Western Balkans. Economic performance has been generally positive during the first half of the year for most countries in the region, except Serbia which continue to record economic contraction. Conditions in the labour market remain problematic throughout the region of the Western Balkans, recording double-digit unemployment rates. Inflationary pressures have resulted lower, but the dynamics of prices have changed significantly between countries. In the banking sector, credit activity has shown signs of

¹ <https://www.investment.com.al/>

recovery, where the rate of credit growth is accelerated in most countries and the credit standards eased, mainly to families. On the other hand, the high level of nonperforming loans remains the main problem of the banking sector in most countries of the region to the Western Balkans. Economic and financial exposure in parts of the region to Greece remains another significant threat to the sustainability of their economic recovery.

Economic activity in Albania will be influenced by developments in the international economic environment. Albania's main trading partners include euro area member states like Italy and Greece with economic channels via exports (particularly Italy), remittances, as well as FDI.

The EU outlook is for moderate but increasing output growth and for subdued but gradually increasing inflation. Risks to the growth outlook remain elevated and have moved towards the downside because increases in external risks exceed the reduction of internal risks. Risks to the inflation outlook appear broadly balanced. Investment in EU is expected to gradually strengthen, supported by favourable financing conditions and the gradual strengthening of domestic demand. The deterioration of the external environment is expected to lower demand for exports, though in the euro area, depreciation has so far partly compensated for this. Referring to the European Commission's Autumn 2015 forecasts, GDP growth in 2015 is forecasted at 1.6% in the Euro area and at 1.9% in the EU. Over the course of 2016 and 2017, domestic demand should benefit as deleveraging needs subside and policies remain supportive. Global activity and world trade are expected to pick up gradually in 2016 and 2017 resulting in higher demand for European exports. The Euro area economy is expected to continue its growth path with GDP growth at 1.8% in 2016 and by 1.9% 2017. The EU economy as a whole is expected to grow by 2.0% and 2.1% over the same period. Italy's economy started a recovery in the first half of 2015 supported by positive external factors including weaker euro and lower oil prices. Real GDP is anticipated to grow by 0.9% in 2015 (after contracting by 0.4% in 2014) as recent indicators point to further expansion in the second half of the year despite the global trade slowdown. Inflation is forecasted to rise very gradually as labour cost pressures remain limited. Referring to the Commission's Autumn 2015 Forecasting report, the Italian economy is expected to accelerate further in 2016 with a forecasted growth of 1.5% and keep broadly the same pace in 2017 by 1.4%.

The Greek economy built up positive momentum in 2014. However, the unsuccessful conclusion of the 2nd Adjustment Program, the referendum called in June 2015, the ensuing bank holiday and the introduction of capital controls raised uncertainty and deteriorated the growth outlook. Despite the uncertainty, real GDP grew by 1.0% in the first half of 2015. This unexpected outcome most likely reflects consumers advancing spending amid fears of depositors suffering losses. It also reflects a fall in imports, as trade credit tightened significantly, and is set to impact on production with a lag. Recovery is expected in the course of 2016, supported by a rebound in confidence, the stabilization of the financial sector following the banks' recapitalization expected at the end of 2015, and the consequent re-launching of investment and privatization projects. Nevertheless, the economy is projected to contract by 1.3% in 2016 amid negative carryover effects from 2015. In 2017, GDP growth is set to gather speed and is projected at 2.7% as implemented structural reforms strengthen aggregate demand.

Assuming the relatively positive expectations for EU, particularly for the Italian and Greek economy, should materialize in the medium term ahead, we expect that to have a positive effect for the Albanian economy.

On the other hand, outlook of oil and basic metal prices, is adding somehow to the downside risks for the medium term economic growth in Albania, most particularly to the extracting industry and related output and investments. However, at the same time, lower crude oil prices are expected to help final consumption as refined fuel is expected to cost less, which will offset some of the negative impact from exported oil and related foreign direct investments. In this program we employ as baseline assumptions for oil price medium term outlook the January 2016 IMF forecasts. Referring to IMF, futures market point to a modest increase over the next year. Risks to

its outlook include subdued aggregate demand growth, sustained production growth and geopolitical risks. In addition, risk of atmosphere in financial markets can pressure oil prices as it can further reduce oil demand if world growth falters. We assume that Brent Crude Oil price will gradually increase to 40 USD per barrel until the beginning of 2017 from 30 USD per barrel actually and continue increasing to around 55 USD per barrel until the end of 2018.

2.1. Recent economic developments

The economic activity in Albania has continued to grow in the first three quarters of 2015. The latest short-term indicators signal ongoing moderate growth in GDP in the near term. However, economic growth was lower than expected in the first half due to supply side shocks and weaker private consumption. The economic activity is expected to strengthen in 2016 and on, but, our projections have been revised downward due to headwinds constraining domestic credit growth and uncertainty in the European financial markets, stemming from the slowdown of large emerging economies.

Real GDP increased by 2.7% in the first three quarters of 2015, supported mainly by improved activity in the construction and industrial sectors. Growth was held back by the fall in the agricultural production which was damaged by the flooding in the begging of the year. Construction activity has been boosted by higher public spending in infrastructure, improved liquidity due to arrears repayments and increased construction permits. On the other hand, industrial production growth slowed down mainly on the back of falling oil prices in the international markets. The services sector continued to grow but at a slower pace in reflection of the weak consumer demand.

Economic growth was supported by increased investments and improvement of the external trade position whilst private and government consumption has been falling. Despite higher disposable income, consumer spending has been falling due to perceived uncertainty and consumer's inclination toward saving. Investments have been a driver of the growth, benefitting from higher foreign direct investments, higher public spending and improved liquidity conditions of the businesses due to arrears repayments. The investment activity was supported by construction investments and investments in machinery and equipment. Net exports deficit narrowed driven by the fall in imports of goods and services. This component gave a positive contribution to growth.

Despite the improving trend, the Albanian economy continues to operate below potential. The negative output gap exerts weak inflationary pressures. Also, the external environment is characterized by low inflationary pressures given low commodities prices in the international markets and low inflation in the main trading partners. For the first 10 months of the year, the average inflation rate was 1.9%, hovering below the Bank of Albania target. Given the cyclical weakness of the economy and below target inflation, the monetary policy has increased the monetary stimulus in the economy. The policy rate was reduced twice during 2015, reaching the historical low level of 1.75%. Meanwhile, the Bank of Albania has used forward guidance to inform the markets that low rates will prevail in the economy in the year to come. This stance of the monetary policy will support the increase of the domestic demand and the return of the inflation to target. On the other hand, fiscal stimulus has been neutral during the first three quarters of the year. The fiscal policy remains committed to follow a consolidated path in the years to come.

The monetary stimulus was reflected in the developments in the financial markets. Domestic financial markets have been liquid and operating in a low interest rates environment. The banking system remains well capitalized and financial indicators are sound. Nevertheless, credit growth remains weak and below expectations. The low demand for loans continues to reflect the limited needs for investment against the backdrop of unutilised production capacities and reluctance to undertake risk. In the meantime, the still conservative lending policies also

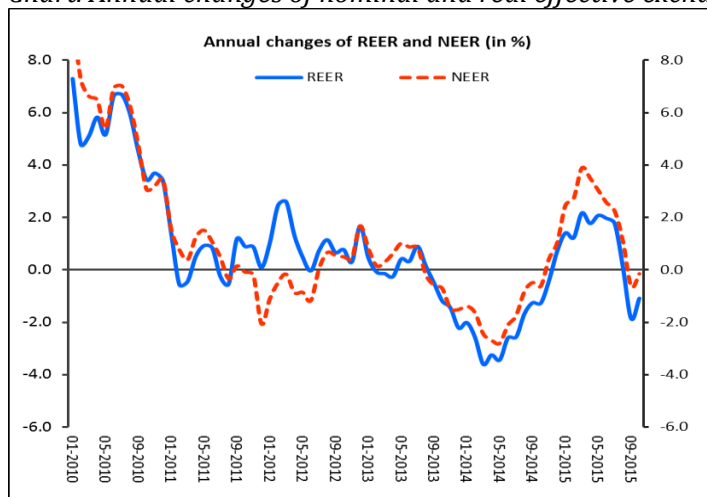
condition the low credit levels. The growth of NPLs has slowed down while the implementation of the plan of coordinated measures to reduce nonperforming loans will help reduce credit risk.

The current deficit showed a narrowing trend in the first half of 2015. The widening of domestic savings, mostly private, was the main contributor to the correction of the current deficit. The registered deficit contracted by 30.5% year on year and it was valued at around 8.5% as a ratio to nominal GDP. In a sub-account disaggregation, the primary contribution to the contraction of the current account deficit was given by a lower net exports deficit and a higher surplus in the secondary income account. Exports of goods and services for 2015H1 remained at the same level of the same period last year. On the contrary, a marked contraction in the import of services contributed to a fall in total imports by around 6.4% annually. Secondary incomes continued to increase led by a sustained pick-up in remittances by 18.7% annually.

Net flows of the capital account reached EUR 47.3 million this year, edging up from EUR 2.4 million in the first half of last year. In the financial account, the net position registered an annual decrease in assets by 19%. The net flows in the capital and financial accounts combined, financed fully the registered current account deficit. Net foreign direct investments edged up by around 35% annually, due to intensified investment in the mining and oil industries.

The current account deficit was financed primarily through non-debt creating flows. Dependence on debt-creating flows decreased somewhat compared to the first half of last year. Accumulated reserve assets totalled EUR 128 million during the first half of the year. As of the end of June 2015, the international reserves are EUR 2.38 billion, sufficient to cover 5.4 months of imports and 162% of short term external debt.

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



Source: Bank of Albania

The Lek has depreciated against a basket of main trading partners currencies in 2015. The NEER index² increased on average by 2.1% annually through October 2015. The depreciation of Lek in real terms was weaker (0.9%) due to the widening of inflation differential.

2.2. Medium-term macroeconomic scenario

Real sector

Economic outlook is expected to gradually improve in the medium term. Economic growth is expected to steadily accelerate reaching 4.2% in 2018 from 2.1% recorded in 2014. Economic growth for 2016 is expected to reach 3.4% performing almost at its estimated potential growth,

² NEER – Nominal Effective Exchange Rate measured against currencies of the most-important trading partners: Italy, Greece, Germany, Turkey and China. An increase of the NEER implies the depreciation of ALL.

therefore almost closing the negative gap experienced since 2009 (except 2010). Economic growth is forecasted 3.9% and 4.2% respectively in 2017 and 2018, still almost at its estimated potential.

Domestic demand is expected to generate the bulk of growth with private consumption and investment having the lead. Private consumption growth is forecasted at an annual average of 3.1% during the next three years (2016 – 2018). At the same time, exports of goods and services, particularly touristic services during 2016 - 2018, and except exports of crude oil, are expected to perform well in the medium term, increasing by an annual average of 5.7%. Nevertheless, net foreign demand is expected to continue have a negative contribution on growth due to expected high imports of capital goods employed for the two main energy projects, respectively TAP and Statkraft-Devoll Hydropower. Therefore, private investment positive contribution on growth is expected to be higher as well, at an annual average of 9.5% during the medium term horizon.

Despite fiscal policy in the medium and long term will clearly continue to be oriented toward consolidation, the government budgetary policy to preserve an average level of public investments at about 4.5% of GDP during 2016–2018 (including investments for regional development and investments in energy sector both financed directly by the budget) will additionally boost total investments in the economy. Gross fix capital formation (total investments) in the economy during 2016 – 2018 are projected to grow in average by 9.1% each year, which is crucial to sustain relatively high growth levels in the long run as well. On the other hand, the tight fiscal policy stance planned in the medium term ahead will be mostly reflected in relatively subdued growth rates of public consumption. Whereas private consumption growth is expected to recover gradually from the negative performance of 3.3% in 2015 as consumer confidence is expected to improve and the tax measures implemented in 2015 will be the last of this kind. At the same time, the accommodative stance of monetary policy foreseen for medium term, as long as the inflationary pressures are expected to remain at the bottom end, will as well support both private consumption and investment.

At the same time, private consumption growth over the projection horizon is expected to be supported by relative improvements in the labour market, reflected in a steady increase in employment and wages. This should stimulate growth of real disposable income of households and their confidence in spending's. The increase in consumer loans is projected to be driven by improved financial conditions of households and by eased lending standards. On the other hand, precautionary behaviour will still have some drag in the consumption growth.

The gradual resumption of investment demand is expected to be supported by improved capacity utilization rates and a recovery in economic climate over the projection horizon, both in Albania and in the external environment. Investment recovery in the coming years will be supported by three separate developments. Firstly, higher FDIs (at the average level of 11.5% of GDP, during 2016-2018), especially in the energy sector, should be a boost to investment rates. Secondly, private investments (at the average level of 24.2% of GDP, during 2016-2018) are to benefit from expected improvements of financial conditions. Thirdly, the low interest rate environment (the base interest rate was lastly changed on November 4, by 0.25 percentage points reaching the lowest historic level of 1.75%), aided also by more relaxed financing conditions after the completion of the AQR assessment from the ECB, is expected to support investment projects.

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

	2012	2013	2014	2015	2016	2017	2018		2012	2013	2014	2015	2016	2017	2018
			Est.	Proj.	Proj.	Proj.	Proj.				Est.	Proj.	Proj.	Proj.	Proj.
Final Consumption	0.1	1.6	3.9	-2.6	2.8	2.6	3.0		0.1	1.4	3.4	-2.3	2.4	2.2	2.6
Gross Fixed Capital Formation	-7.9	-2.1	-2.9	8.8	12.0	8.8	6.6		-2.3	-0.5	-0.7	2.2	3.2	2.5	2.0
<i>Public</i>	-14.5	8.2	-5.5	8.2	9.0	-2.6	-1.2		-0.9	0.4	-0.3	0.4	0.5	-0.2	-0.1
<i>form which: central government</i>	-12.8	4.9	-8.9	1.3	-6.0	4.6	8.3		-0.7	0.2	-0.4	0.1	-0.3	0.2	0.0
<i>Privat</i>	-6.1	-4.5	-2.1	8.9	12.8	11.7	4.0		-1.4	-1.0	-0.4	1.7	2.7	2.7	2.0
Domestic Absorption	-1.9	0.7	2.3	-0.2	4.9	4.1	1.5		-2.2	0.8	2.7	-0.2	5.5	4.7	4.5
Net export	-15.5	-0.2	8.2	-14.5	13.1	4.7	6.7		3.5	0.0	-1.5	2.7	-2.2	-0.8	-0.3
Exports of goods and services (f.o.b)	-0.6	7.9	0.5	3.9	6.4	5.9	4.7		-0.2	2.6	0.2	1.1	1.8	1.7	1.9
Imports of goods and services (f.o.b)	-6.6	5.0	3.1	-3.5	8.9	5.4	0.0		3.7	-2.6	-1.7	1.7	-4.0	-2.5	-2.2
Change in inventories	-8.7	34.4	0.0	0.0	0.0	0.0	0.0		-0.2	0.6	0.0	0.0	0.0	0.0	0.0
Statistical discrepancy	11.5	-21.2	109.5	0.0	0.0	0.0	0.0		0.3	-0.4	0.8	0.0	0.0	0.0	0.0
GROSS DOMESTIC PRODUCT	1.4	1.1	2.0	2.6	3.4	3.9	4.2		1.4	1.1	2.0	2.6	3.4	3.9	4.2

Source: Ministry of Finance, INSTAT

The overall public sector demand will continue to be somehow constrained by fiscal consolidation. As such, it is not expected to be a growth driver over the medium term. However, fiscal consolidation will reduce the risk premia in the medium term and allow for crowding-in of the private sector. At the same time, the composition of planned budgetary policies are growth supportive and therefore are expected to offset at a certain extent the overall tightening effects of fiscal consolidation. More specifically, public investments in the short and medium term are preserved, at least, at the average level of 4.5% of GDP, which have a relatively high multiplier toward short term aggregate demand and are crucial to shift upwards the potential growth in the medium and longer term. The full payment of the accumulated government arrears to the private sector, which started in 2014 and was practically completed in 2015, will help in improving the financial situation of businesses. At the same time, stimulating measures are adopted for some critical employment-generating sectors of the economy, such as agriculture and SMEs all across the board.

As the Albanian economy continues on the recovery track for reaching the potential performance, the difference output gap is expected to gradually close during the second half of 2016, reaching a real economic growth of 4.2% at the end of 2018. The domestic disinflationary pressures will start to weaken somehow in 2016 and inflation is expected to gradually converge to its target by 2018. Yet, owing to the modest scale of the recovery and to the lagged response of prices to the closure of the output gap, the CPI inflation will remain relatively low, running below the BoA inflation target probably till the end of 2017. Factors conducive to weak inflationary pressures will also include: low and relatively stable commodity prices and consumer prices in international markets; low inflation expectations; and reluctance of businesses to pass through higher costs and restore profit margins. As domestic demand grows stronger (with an average growth rate level of 3.5% for 2016-2018) and the monetary stimulus is fully transmitted into the real economy, inflation will reach the BoA target within the medium term.

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

	2012	2013	2014 2015 2016 2017 2018					2012 2013 2014 2015 2016 2017 2018						
			Est.	Proj.	Proj.	Proj.	Proj.	Est.	Proj.	Proj.	Proj.	Proj.		
Agriculture, hunting and forestry	5.4	0.7	2.2	0.8	3.0	3.9	4.3	1.0	0.1	0.4	0.2	0.6	0.8	0.9
Industry	-3.3	13.5	2.9	3.9	2.0	3.0	4.9	-0.4	1.6	0.4	0.5	0.2	0.3	0.5
- Extracting Industry	17.4	13.2	15.4	-0.2	-1.9	0.8	5.7	0.6	0.6	0.8	0.0	-0.1	0.0	0.2
- Manufacturing Industry	-11.8	13.6	-5.1	6.9	4.1	4.0	4.6	-1.0	1.0	-0.4	0.5	0.3	0.3	0.4
Construction	-8.8	-8.2	-7.3	8.4	9.3	5.7	4.8	-1.1	-0.9	-0.8	0.8	0.9	0.6	0.5
Total Services	3.2	0.3	4.3	1.7	2.6	3.6	3.9	1.4	0.1	1.9	0.8	1.2	1.6	1.8
Trade, Hotels and Restaurants	0.8	-0.4	4.0	0.9	2.8	3.5	4.5	0.1	-0.1	0.5	0.1	0.4	0.4	0.6
Transport	5.1	-23.6	-2.6	1.5	3.2	3.9	4.7	0.2	-0.9	-0.1	0.0	0.1	0.1	0.1
Post and communication	-3.8	-11.9	-0.8	-1.4	0.4	1.1	2.1	-0.1	-0.3	0.0	0.0	0.0	0.0	0.0
Other Services	4.9	5.4	5.6	2.4	2.6	3.8	3.7	1.2	1.4	1.5	0.7	0.7	1.1	1.0
FISIM	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
GROSS VALUE ADDED AT BASIC PRICES	1.0	1.0	2.2	2.5	3.4	3.9	4.2	0.9	0.9	2.0	2.2	2.9	3.3	3.7
Taxes on products	-0.9	2.8	0.3	2.7	3.5	4.0	4.3	-0.1	0.4	0.0	0.3	0.5	0.5	0.6
Subsidies on products	-85.3	123.0	-10.0	0.3	0.4	0.5	1.5	0.6	-0.1	0.0	0.0	0.0	0.0	0.0
GDP AT MARKET PRICES	1.4	1.1	2.0	2.6	3.4	3.9	4.2	1.4	1.1	2.0	2.6	3.4	3.9	4.2

Source: Ministry of Finance, INSTAT

Growth in the medium term ahead is expected to be more jobs – creating than historically as the most labour intensive sectors of production are expected to perform better than the others. More specifically, agriculture, textile and footwear industry as well as tourism related services are expected to be the best performers, reflecting also to some extent the priority focus of the government on these sectors for the medium term future. Therefore, increase in the total employment is expected to accelerate during 2016 -2018 with an annual average growth of 4%. Despite larger expected expansion of employment, the overall labour productivity is still expected to continue have a slight improvement in the medium term ahead. At the same time the baseline scenario assumes an increase in the labour force by an average of 2.2% per year during 2016-2018 which mainly reflects a higher participation rate reaching 65.8% in 2018 from 63.7 in Q3/2015. The expected population low growth has a minor effect as well in increasing the labour force. Consequently, the baseline scenario projects a gradual reduction of unemployment rate to 13.1% in 2018 from 17.9% in 2014.

Construction, the same as in 2015, is expected to continue to perform at positive growth rates during 2016-2018 with an annual average growth of 6.6%, reflecting higher gross fix capital formation, however still way below the pre-crisis growth rates. Extracting industry is expected to continue to contract by 1.9% in 2016 in the light of lower expected prices of crude oil and will only start to recover during 2017 and 2018 with a respected forecasted growth of 0.8% and 5.7%.

The risks surrounding the economic outlook for the Albanian economy remain on the downside. In the short run, the recovery is likely to continue to be dampened by: prevailing high unemployment; suboptimal capacity utilization and weak credit growth to the private sector. In the medium and long term, ongoing structural reforms should improve the business environment for firms and boost the economic potential.

Monetary and exchange rate policy and inflation

The cyclical weakness of the economy and the persistent inflation trend below the target has conditioned the strengthening and continuity of a stimulating monetary policy. In accordance with Bank of Albania's forward guidance to preserve low interest rates for some quarters to come, the policy interest rate has been lowered twice during 2015, respectively in January and November, reaching a new historic low of 1.75%. During this period, Bank of Albania has continued to inject liquidity in the market through re-financing operations, by offering another channel to ease monetary conditions. The operational framework for the implementation of monetary policy has remained unchanged.

To enhance the monetary policy easing, Bank of Albania has implemented forward guidance and it has communicated its commitment to keep interest rate low until the sustainable return of inflation to the 3% target. Monetary policy has driven the fall of interest rates in the domestic market to historical lows. The decline of borrowing interest rates in Lek was reflected in the increase of the Lek loans strengthening the transmission of monetary policy. Credit in domestic currency has been leading credit growth throughout the year 2015. The weight of foreign currency loans to total loans has dropped from 65% in 2011 to around 56% as of September 2015. Nevertheless, credit growth remains slow in view of hesitant demand and cautious approach from banks. The consolidation of the fiscal policy has supported the accommodative monetary policy. The government decision to shift borrowing from internal to external sources is expected, among other things, to have a positive effect in credit supply and further easiness of interest rates.

Bank of Albania expects a gradual improvement of the economy during the years to come, supported from domestic as well as foreign demand. The negative output gap is expected to close gradually during next year, by turning positive at the beginning of 2017. The cyclical improvement of the economy will be accompanied with the gradual return of inflation to the target by the beginning of 2018. These expectations dictate the pursuit of a stimulating monetary policy in the medium term forecast. Bank of Albania judges that a cycle of increasing interest rates will not begin earlier than 2017. Monetary policy implementation will continue to take place in the context of a free-floating exchange rate regime and will be supported by open market operations. The maintenance of the strong monetary stimulus is expected to encourage domestic demand and to enable the return of the economy to equilibrium as well as the return of the inflation to objective.

External sector and its medium-term sustainability

High trade and budgetary deficits alongside falling remittances have contributed to high current account deficits to GDP since 2008. A large chunk of the current account deficit is attributed to its cyclical component, where high imports reflect intensified investment activity in the country and where high primary income outflows reflect increased profitability from FDI activity in the country.

For the future, the projections of the Bank of Albania indicate a slight annual contraction of the current account deficit for 2015 and an expansion in 2016 and 2017. For 2018, we estimate a slight contraction of the current account deficit. In terms of nominal GDP, the current account deficit is evaluated at 10.0% in 2015, 11.2% in 2016, 12.4% in 2017 and 11.5% in 2018.

The trade deficit is expected to grow until 2017 and then recede somewhat in 2018. Imports of goods are projected to largely drive the trends in goods trade balance. Policies focused towards the tourism industry in the country, as well as a weak consumer demand, are expected to help increase the surplus in the service account for 2015. For 2016, we project a smaller surplus in for trade in services and then we expect small increases in the surplus for 2017 and 2018. The primary income account balance is projected to post an annual deficit throughout the whole period as a result of higher FDI income outflows. Secondary incomes are projected to grow in both 2015 and 2016 due to larger remittances from Western European countries but also from an improvement in economic activity in Italy. For 2017 and 2018, secondary incomes are expected to remain in similar levels to 2016.

In the first half of 2015, net FDIs registered a rapid annual growth. For the whole year, the Bank of Albania expects an annual hike of about 6.6%. This tendency is expected to carry forward throughout the whole period with the increase in FDIs concentrated primarily in the energy sector. The TAP project, which nevertheless is expected to contribute to the deterioration of the current account deficit until 2017, as well as other projects in hydroelectric power generation are expected to be the main drivers of FDI growth in the forthcoming years.

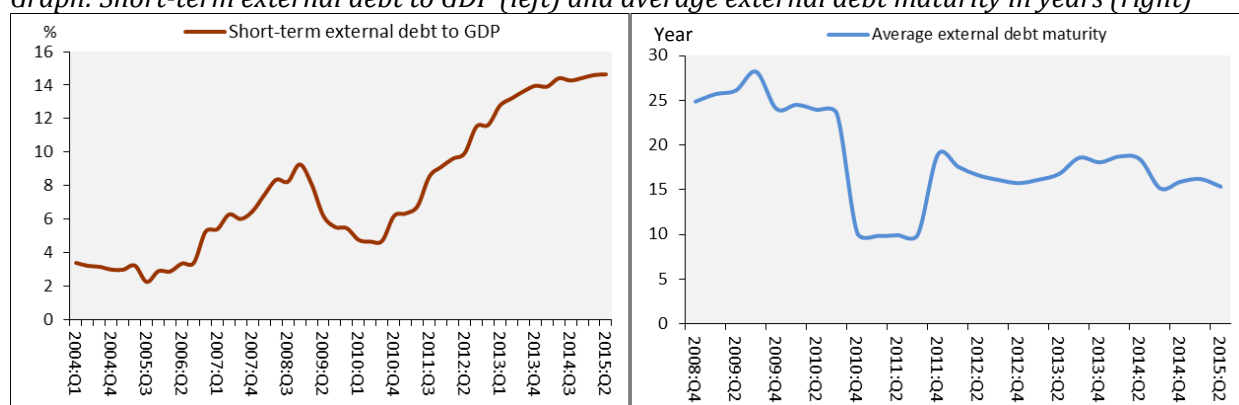
Portfolio investment assets posted a net decrease of EUR 158 million. Decreased flow of investment abroad in the form of debt instruments was the primary factor behind this result. Debt creating flows were evaluated at around 0.7% to GDP, decreasing by around 2.2 percentage points annually. The current account deficit financing through non-debt creating flows has intensified further.

Albania's net international investment position has deteriorated during 2014. In annual terms, it decreased by around 9.2 percentage points during 2014. The stock of financial assets invested abroad reached 56.5% to GDP, decreasing slightly for a year prior. The stock of financial liabilities reached 101.3% of GDP.

At the end of the second quarter of 2015, Albania's gross external debt stock reached EUR 7,257 million, valued at around 72% of nominal GDP. The ratio of the gross external debt to the annual export of goods and services was 205%, whereas to government revenue, it reached 264%.

Albania's short-term external debt stock reached 14.6% to GDP at the end of 2015Q2 and covered around 20.4% of the total gross external debt. Average maturity was evaluated at around 15 years.

Graph: Short-term external debt to GDP (left) and average external debt maturity in years (right)

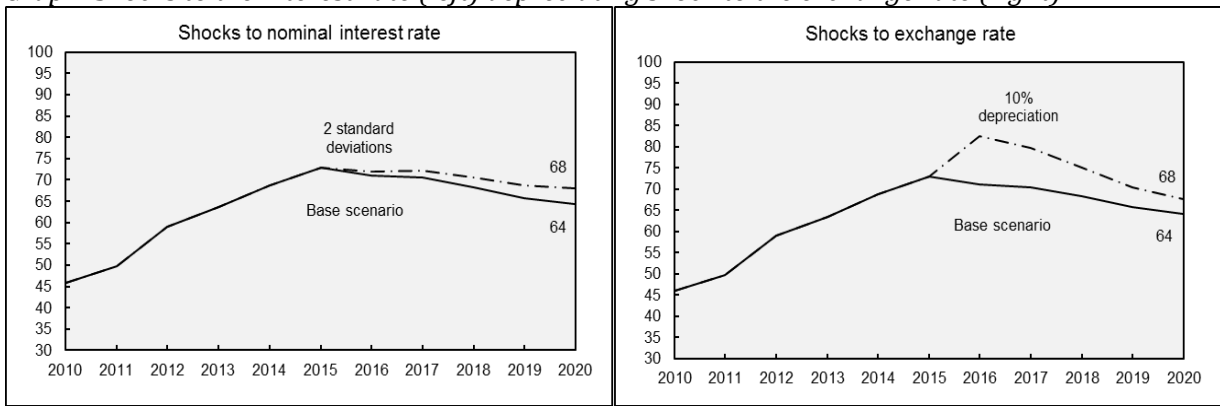


Source: Bank of Albania

Risk analysis on the external debt sustainability indicates a heightened sensitivity to exchange rate and interest rate shocks. In the first simulation, the interest rate expected to be paid on the external debt stock is shocked with a permanent increase of around 2 standard deviations from 2016.

The external debt at the end of the period increases slightly vis-à-vis the base scenario, if such an event materialises. In the second simulation, the exchange rate is shocked with a one-off 10% depreciation of the Lek in 2016. The shock is imposed on a composite index of the Euro and the US dollar, according to the weights of these currencies have in the external debt composition. The resulting trajectory of the external debt to GDP projection shifts markedly upwards compared to the base scenario and continues to slide downwards until the end of the projection period. In both risk scenarios the external debt to GDP converges to the 68% level.

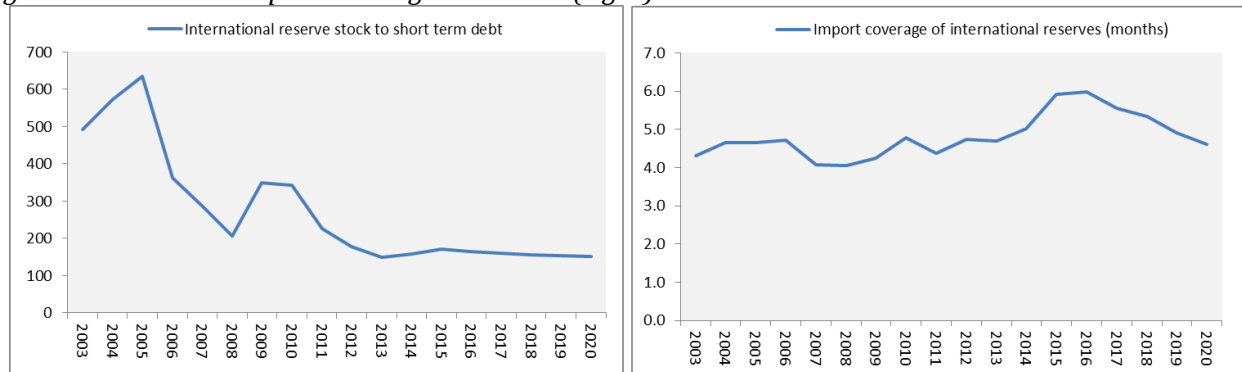
Graph: Shocks to the interest rate (left) depreciating shock to the exchange rate (right)



Source: Bank of Albania

The external debt coverage from the stock of international reserves is projected to not fall below the 100% threshold. Simultaneously, the ratio of goods and service import coverage is not expected to fall below the critical level of 4 months.

Graph: Stock of international reserves to the short-term external debt stock projections (left) and goods and services import coverage in months (right)



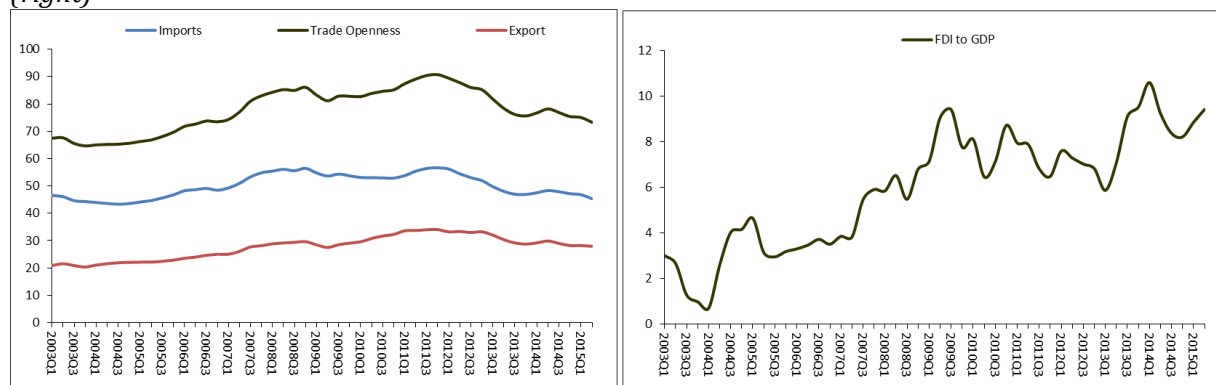
Source: Bank of Albania

Merchandise trade data for the first 9 months of the year show an annual contraction of exports by about 3.7%. We expect the export performance to be affected by low prices of oil and metals in international markets. Growth in the export capacity of agricultural products is expected to aide export activity. Meanwhile, we expect a revival of re-exported textile merchandise exports in line with projections for a pick-up in economic activity in Italy.

Exporters of agricultural products, metals, textile merchandise and oil have penetrated in new markets such as Denmark, Egypt, United Arab Emirates, Hungary, Lithuania and Slovenia. The trade openness indicator reached its peak in 2011, at around 91% to GDP³. Foreign direct investments have expanded at a rapid pace in the last three years.

³ This declining trend is primarily attributed to methodological changes in the compilation of Balance of Payment data according to the BPM6 methodology. Re-evaluations according to the BPM5 methodology show a similar peak in 2011. Data according to the BPM5 methodology do not indicate receding trade openness but rather a peak at around 89% to GDP.

Graph: Trade openness and exports to imports to GDP (left) and foreign direct investments to GDP (right)



Source: Bank of Albania, INSTAT

According to the structural decomposition of Albanian exports' performance, increased competitiveness aside from its price component has influenced positively the export developments in 2014. The structure of exported merchandise has contributed negatively to export growth in 2014, in terms of exporting activity to the EU15 countries and to the CEFTA member states. This performance implies that the specific world demand for products in which Albania has a comparative advantage was in decline. The effect attributed to the geographic orientation was estimated to be positive only in terms of exports to the CEFTA member countries. The latter demonstrates a subdued export demand dynamic from the older 15 members of the EU. Meanwhile, the effect attributed to global import demand was positive.

Table: Results of the CMS method for Albanian goods exports.

Individual element growth in p.p.	2014	
	EU-15	CEFTA
From global demand	7.6	1.2
From the structure of exports	-1.6	-2.5
From geographic orientation	-2.1	1.8
From competitiveness	57.9	23.2
Total export growth	61.8	23.7

Source: Bank of Albania, UN Comtrade.

Financial sector

The banking sector has maintained its structure and stability during year 2015. The volume of activity has increased and performance has improved. Indicators of banking sector soundness, such as: solvency, liquidity and extent of provisioning marked adequate levels, by remaining within regulatory limits, even when supposing materialization of severe macroeconomic scenarios. The main challenges for the Albanian banking sector in the future are: provision of a steady recovery of credit and improvement of banks' asset quality through cleansing measures in order to remove problematic loans from balance sheets, with a positive effect in operational efficiency and intermediation capacity. As for market risks, the banking sector appears to be relatively guarded from the direct exchange rate risk, as a result of unfavourable exchange and interest rate volatilities.

The macroeconomic framework was stable, while supporting the financial sector's performance. The actions of the fiscal and monetary policies have been accompanied by an appropriate functionality of financial markets and low financial costs.

In June 2015, financial intermediation in Albania, expressed as ratio of financial system assets to country's GDP, marked 102.6%. The banking sector continues to remain the main segment of financial intermediation, comprising more than 90.3% of the financial system's total assets.

In September 2015, assets of the Albanian banking sector marked an annual increase of 4.1%. Increase of assets in annual terms was mainly concentrated in interbank investments (mainly in non-resident financial institutions), as well as in increase of credit activity, while the securities portfolio has shrunk as a result of lower investments in non-resident securities. The considerable amount of banking sector investments in government securities, dictates the need for improvement in magnitude and permeability of the market, where these securities are traded, as a crucial instrument to administer and minimize the respective risks.

The weak increase of credit remains the greatest concern regarding the outlook of the Albanian economy. Despite improvement of the domestic macroeconomic framework, volume of issued loans by the Albanian banking sector to the private sector remained slow primarily due to structural restrictions on the credit supply side, respectively: (i) the more reserved stance of the owner group banks following the requests of the European Union (EU) and Eurozone authorities; (ii) the important persistence of problematic loans outstanding on banks' balance sheets, which restrains allocation of essential operational sources for their administration, altogether with preservation of prudent and high standards of credit; (iii) the short-term structure of financing sources, which impairs the banks' readiness to finance the private sector with long-term maturities, in a state of low financing volume in capital markets. On the demand side, restrictions in credit are linked to the continuous presence of the negative gap of production in a state when the economic activity continues to remain under its' potential level, as well as under the yet unsteady expectations of businesses and consumers for the country's economic growth.

The credit activity rose during the first half of 2015, driven by the favourable interest rates for loans in domestic currency, but it significantly slowed down during the year's third quarter. Among others, this situation has reflected massive write-offs from banks balance sheets of non-performing loans. Not accounting for the effect of loss loan write offs, the credit to domestic private sector increased by 2.3% annually through September 2015⁴. Towards the last quarter, there have been slight hints of credit growth; nonetheless this recovery seems to be yet fragile given the whole macroeconomic framework. Credit to the private sector is projected to improve somewhat in 2016. The stock of CPS is expected to grow at an annual rate of 4.6% at the period end. The projections for 2016 reflect an improvement of economic activity and revival of the domestic demand. Credit conditions are expected to remain widely eased, including both price and non-price standards.

Credit in domestic currency, despite representing only 39% of total credit, was the main determinant of credit activity recovery in 2015. In September 2015, credit in domestic currency grew by 4.8% and that in foreign currency decreased by 1.1%. Performance of credit in domestic currency was driven by the significant drop of interest rates of credit in domestic currency starting with the implementation of a facilitating monetary policy in September 2011 and intensification of competition among banks. Measures taken by the Bank of Albania towards credit, in effect since May 2013, have influenced the restriction of further growth of problematic loans proportion and have supported credit in domestic currency. Anyhow, impact in total credit has been low, as a result of weak demand and uncertainty in general.

Banking activity has continued to be fundamentally financed by deposits, which comprise about 82% of total assets. Ratio "loans-to-deposits" is around 55%. In September 2015, volume of deposits in domestic currency increased by 4% in annual terms, regardless of the decrease of the average interest rate. Base of deposits in domestic currency expanded by 2.7%, while that of

⁴ Starting from January 1st 2015, banks have started the process of the write-off of loans under category "lost" for more than 3 years from the banks' balance sheets.

deposits in foreign currency expanded by 5%. Reliability of banking sector on foreign financing sources is very limited. The net position of banking sector to non-residents obviously remains “long” and expanding during the period, although at a slow pace. Borrowing from parent banking groups decreased. Counter-cyclical measures taken by Bank of Albania in May 2013, have contributed to a slower increase of banking sector investments in foreign assets. Their annual increase in September 2015 dropped to 10%, from 14% in 2014 and 24% in 2013. Liabilities to non-residents are mainly in the form of credit lines. The unused part of credit lines decreased by 62% compared to December 2014 and by 55% annually.

Good capitalization remains a feature of the Albanian banking sector. In September 2015, the capital adequacy ratio resulted 15.8%, standing above the minimum regulatory level of 12%. Tier 1 capital remains the main determinant of regulatory capital, providing protection against possible shocks. Profits capitalization brought improvement to the capital level, despite the increase in risk weighted assets due to regulatory changes⁵.

Net financial result improved significantly as a result of lower financing costs and extended interest rate margins. In September 2015, RoA and RoE - profitability indicators, increased respectively in 1.2% and 13.1% from 0.9% and 11% a year ago.

Loan portfolio quality improved during 2015, mainly driven by the write-off process of the loss loan from the balance sheets, where non-performing loans ratio stands at 20.6% in September 2015. Provisions cover 69% of non-performing loans while the ratio of “non-performing loans net of provision/regulatory capital” fell to 29.2% level. Bank of Albania continued the implementation of the non-performing loans resolution plan, with the support of FinSAC and World Bank. Moreover, under the national structure of non-performing loans resolution is built a comprehensive strategy. In June 2015, Bank of Albania in cooperation with Ministry of Finance, Ministry of Economy, World Bank and IMF organized a national conference for the non-performing loans resolution plan, with the respective plan published in September 2015.

Albanian banking sector is hedged against direct risk arising from exchange rate and interest rate movements. The limited net foreign exchange position (8% of regulatory capital) and “purchase” or “long” position of banks protect banking sector from the risk of exchange rate depreciation. However, indirect market exposure due to unhedged loans remains relatively high, where these loans account for about 1/3 of the total loan portfolio.

The liquidity position of the banking sector is at good levels. Liquidity ratios, as for domestic and foreign currency, are above the minimum levels required by the regulatory framework. In September 2015, liquid assets comprise 33.2% of banking sector assets. Albanian banks with Greek capital (ABGC) have maintained liquidity ratios consistent with the regulation in force despite the deposits withdrawal at the end of June and in July. The potential negative impact of the Greek crisis has been in attention of the Bank of Albania. Financial Stability Advisory Group (FSAG) met in May, June and July 2015, focusing on the analysis of the banking and financial sector activity and assessing amid other things, the potential impact of the crisis in Greece. Financial soundness indicators for ABGC and sector as a whole have been assessed and tested under different conservative scenarios, whereas their exposure to parent banks and Greece is reduced to negligible levels. FSAG estimations show that good level of capitalization and liquidity and the lack of the exposure or cutting off of their transactions with the holding banking group, has neutralised the possible financial impact channels.

Banking sector in Albania is well capitalized and liquid and can cope with strong shocks in terms of macroeconomic developments inside and abroad. Stress test exercise in terms of capitalization

⁵ Starting from January 2015, banks have shifted to a new standard in terms of calculating the capital requirements for monitoring of the main risks in accordance with Basel II methodology. In pursuance of the new regulation provisions “On capital adequacy ratio” that makes aligning with this standard, capital banks can release capital in certain categories of risk weighted assets from one side, but should plan for additional capital requirements for market and operational risk.

shows good ability in terms of absorbing potential losses from adverse shocks in economy developments. Also, it is estimated that banks have a high resilience to liquidity shocks and have good capacity to repay obligations in case of unexpected deposits withdrawal.

Table: Summary of banking sector indicators

	2006	2007	2008	2009	2010	2011	2012	2013	2014	Sept - 2015
Main indicators										
Assets (Billion ALL)	624.28	742.86	834.14	886.31	990.63	1,120.17	1,187.98	1,235.32	1,271.88	1,324.59
Loans (Billion ALL)	197.96	292.46	396.77	449.89	490.87	566.22	577.82	567.16	577.29	591.88
Deposits (Billion ALL)	525.53	630.11	645.14	694.26	816.73	924.06	991.67	1,025.57	1,050.18	1,090.28
Profitability indicators										
ROA (%)	1.36	1.57	0.91	0.42	0.72	0.07	0.33	0.54	0.93	1.18
ROE (%)	20.17	20.74	11.35	4.58	7.58	0.76	3.78	6.43	11.03	13.13
Loans/Assets (%)	31.71	39.37	47.57	50.76	49.55	50.55	48.64	45.95	45.4	44.68
Risk indicators										
Capital adequacy ratio (%)	18.07	17.08	17.23	16.17	15.40	15.56	16.17	17.96	17.54	15.8
Non-performing loans ratio (%)	3.05	3.36	6.64	10.48	13.96	18.77	22.49	23.5	25.0	20.6
Securities portfolio/Assets (%)	14.73	17.95	19.99	20.05	21.27	21.80	21.61	24.50	25.63	24.11
Off-balance sheet assets/Assets (%)	42.28	54.84	89.08	94.04	88.74	102.98	107.59	115.64	116.8	111.3

Source: Bank of Albania

Other segments of the financial system

Insurance companies activity. Share of insurance companies' assets to the total financial system assets remained unchanged in recent years at 1.8% level. Their activity expanded in the first half of 2015, with the annual growth of gross written premiums by 24%. The indicator of insurance penetration in the market – the ratio of premiums to GDP was 0.45%.

Investment funds. In the first half of 2015 in Albania, operate two investment funds, with a growing role in financial intermediation. Their assets account for 4.8% of GDP, up from 4.5% at the end of 2014. Their activity is dominated by investments in debt securities of government in about 90% of fund assets.

Private supplementary pensions. In the first half of 2015, in Albania operate three voluntary private pension funds, assets of which constitute 0.05% of the GDP. Their activity grew by 41% yoy.

2.3. 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 "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, the measures of the comprehensive impacts and the pace of the structural policy reforms planned for the medium term period ahead, etc. The overall net effect of all the assumed risks, negative or positive, is quantified and introduced in terms of a single variable, real economic growth. Therefore, the alternative scenarios are based on different economic growth assumptions from the baseline for each year 2016 – 2018. The implications of different macroeconomic scenario on the fiscal framework are explained in section 3.6.

Tab: Alternative assumptions in each scenario

	2009	2010	2011	2012	2013	2014	2015 Proj.	2016 Proj.	2017 Proj.	2018 Proj.
Real GDP growth (%)										
<i>Baseline</i>	3.4	3.7	2.5	1.4	1.1	2.0	2.6	3.4	3.9	4.2
<i>Pesimistic</i>								1.0	2.2	3.0
<i>Optimistic</i>								4.4	4.9	4.5
Nominal GDP (in billion Lek)										
<i>Baseline</i>	1,144	1,240	1,301	1,333	1,351	1,401	1,445	1,530	1,637	1,760
<i>Pesimistic</i>								1,495	1,574	1,672
<i>Optimistic</i>								1,545	1,670	1,800
Revenue (% of GDP)										
<i>Baseline</i>	26.1	26.2	25.4	24.8	24.2	26.2	26.3	27.4	27.3	27.3
<i>Pesimistic</i>								26.9	26.8	26.8
<i>Optimistic</i>								27.4	27.3	27.3
Overall fiscal deficit (in billion Lek)										
<i>Baseline</i>	-80.9	-38.0	-45.8	-45.9	-66.9	-72.1	-58.2	-34.4	-23.0	-8.6
<i>Pesimistic</i>								-43.0	-35.6	-24.9
<i>Optimistic</i>								-32.4	-18.6	-3.3

Note: The overall fiscal deficit in nominal terms for each alternative scenario is targeted to be more (less) in the case of the pesimistic (optimistic) scenario than the baseline nominal deficit by 50% of the total revenue difference between the baseline and each respective alternative scenario

Source: Ministry of Finance

3. FISCAL FRAMEWORK

3.1. Policy strategy and medium-term objectives

Fiscal policy in the medium term will be strictly oriented toward fiscal consolidation. We commit to continuing with fiscal consolidation in order to reduce debt-related vulnerabilities which hamper growth and cause macroeconomic instability. In line with the actual program we have with the IMF, we intend to pursue a steady pace of fiscal consolidation based on a sound strategy of broadening the tax base and strengthening tax administration and compliance, with the goal of lowering the public debt-to-GDP ratio to below 64 percent by 2018, from around 72.6 percent expected for end-2015.

In 2015, despite significant underperformance in revenues, we remain committed to achieving our fiscal deficit target of 4 percent of GDP. The shortfalls in revenues reflected forecasting issues in the 2015 budget; macroeconomic factors such as lower than expected GDP growth, interest rates, and oil prices; and behavioural responses to tax increases that took effect in January 2015. We have addressed the resulting financing gap by using the mainly savings in personnel costs, social insurance outlays, and the interest bill. We are committed to undertaking further fiscal adjustment in 2016 and onwards. We will target a headline deficit of 2.2 percent of GDP in 2016, which is the lowest deficit ever since the transition to market economy (last 25 years) and an improvement by 2.8 percentage points from 2015, helped also from the ending of arrears payments. The primary surplus targeted for 2016 is 0.6 percent of GDP, a 1.8 percent improvement over the 2015 primary deficit, (or 1.1 percent improvement if we would exclude arrears clearance from primary balance). In line with the actual IMF program for 2017 and 2018 our main anchor to fiscal consolidation will be a one percentage point of GDP improvement in the primary balance in each year (IMF definition, including energy support). Therefore, we are targeting a primary surplus of 1.5 percent in 2017 and a surplus of 2.4 percent in 2018. The corresponding targeted headline balance is a deficit of 1.4 percent of GDP in 2017 and 0.5 percent in 2018. The bulk of headline adjustment will be driven by reduced current expenditures in terms of GDP by an annual average of 0.8 percent of GDP, while total capital expenditures (including for investment for energy and regional development fund) will remain very close to the average level of 4.6 percent per year. At the same time the 2016-2018 outlook for social insurance outlays does foresee an increase which is directly linked with the annual rate of inflation recorded on the previous year, and this is mandatory by law.

For 2016 alone, a considerable adjustment compared to 2015 will come through the expenditures for arrears' payment. On the revenue side, although in the medium term fiscal framework we project a constant baseline level of total revenues as a ratio of GDP at 27.3% in line with IMF projections, specific measures include:

- broadening the tax base for the existing property tax and for social contributions by the self-employed;
- introducing a registration fee and an annual circulation tax on luxury cars; and
- improving the design of current taxes (for example, quantity-based taxes will replace *ad valorem* ones on non-metallic minerals and hotel stays).

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

- In early September 2015, we launched a large-scale reform effort against tax evasion, non-compliance, and informality. It focuses on companies that are unregistered, understate their payrolls, do not use cash registers, or do not issue receipts. Our reform effort has already yielded a large increase in the number of registered small businesses and employees. In addition, we will tackle informal markets for cell phones and cigarettes.
- We are urgently addressing recently identified weaknesses in revenue forecasting and monitoring. A steering committee led by the Office of the Prime Minister and involving representatives from the IMF and the World Bank has started meeting weekly to address the causes of recent revenue underperformance. It is also enhancing the coordination among the Ministry of Finance (MoF) and the General Directorates of Taxes and Customs (GDT and GDC). In September, a dedicated revenue unit was established and commenced operations at MoF. The unit prepared its first survey of tax expenditures for the 2016 budget and will update this survey annually, with help from IMF TA.

At the same time, reforms in the pension system and energy sector are indispensable for having sustainable and growth-promoting public finances. The actual and contingent burden of pension system and energy sector on the public finance, and consequently on the entire economy, is huge and had to be tackled. We embarked on deep reforms in both of them, as already reported in previous NERP. The energy reform has already started to yield satisfactory results. Therefore, we

aim to limit public guarantees and policy net lending to the sector to ALL 7 billion in 2016 and ALL 6.5 billion in 2017, with the aim of completely eliminating power sector subsidies by 2020. Total state guaranties (the actual outstanding stock is accounted at hundred percent in the total stock of public debt) and more particularly subsidies to the electricity sector are transparently reflected in the fiscal accounts and in our budget. Total state guaranties account for 4.8 percent of GDP in each year 2016-2018. If government support to the electricity sector exceeds the annual programmed amount, we commit to taking offsetting fiscal measures to meet the program's fiscal targets.

3.2. Budget implementation in 2015

Expected revenues for 2015

For 2015, revenue from GDT and GDC are realized at ALL 259.1 billion or 95% of the Official Budget. The main components leading to this lower than initially expected performance in total revenues were revenues from GDC. The customs administration has not fulfilled the revenue objective by minus ALL 11,3 billion, while the Tax administration, including the social contribution, has realized and over performed on the objective by ALL 0.3 billion.

In total, GDC and GDT collected ALL 329.3 billion in revenues, or ALL 11.7 billion less than the forecast.

GDT and GDC	Fact 2015	<i>In thousand ALL</i>	
		Official Budget 2015	Diff
Value added tax	125,562	131,203	-5,641
Income tax	24,963	23,547	1,416
Excise	39,027	44,900	-5,873
Personal income tax	29,270	31,803	-2,533
National and other taxes	34,531	35,582	-1,051
Custom taxes	5,898	5,323	575
Total "Taxes and Customs"	259,251	272,358	-13,107
Contributions from GDT	65,590	66,992	1,402
Total	324,841	339,350	-11,705

Source: Ministry of Finance

The analysis of the 2015 tax revenues showed that the main factors that affected the performance of revenues were largely exogenous to the work of the customs administration.

The main reasons for this under performance were:

- Issues of revenue forecasting;
- Lower than expected economic growth;
- Significant decline in imports of cigarettes.
- Fall of the international price of oil and oil-related commodities;
- Decline of the interest rates;
- Decline in the imports of electricity and fuel due to higher domestic production of these commodities.
- VAT exemption regimes;
- The decreasing trend of imports, particularly from agricultural products;
- Payment of dividends at the end of 2014, in anticipation of the rate increase from 10% to 15%, from 1st January 2015

The contributions to revenue shortfall by different major factors and commodities are as follows:

Products	Income		Reasons
Fuel/import and domestic production	ALL(2,3)	billion	The decline in the price and 24,270 thousand tons less than in 2014
Crude oil	ALL(2,1)	billion	The decline in the price and 78,3 thousand tons less than in 2014

Electrical energy	ALL(1,5)	billion	MW/h 990 thousand less than in 2014
Cigarette	ALL(803)	million	497 tons less than in 2014
Smoking minced	ALL(201)	million	49 tons less than in 2014
Mineral Rents/ Other	ALL(108)	million	32,8 thousand tons of mineral export less than 2014
Helicopters	ALL(950)	million	4 pieces of less import than 2014
Used vehicles	ALL(434)	million	7660 pieces less than in 2014
Liquid gas	ALL(417)	million	7,755 thousand tons less than in 2014
Sugar	ALL(126)	million	8 thousand tons less than in 2014
Fruits & Vegetables	ALL(262)	million	
Total	ALL(9,3)	billion	18 thousand tons less than in 2014

Source: Ministry of Finance

2015 Revenue from Customs Administration

The 2015 revenues from Customs Administration were lower than the plan, by minus ALL 11.9 billion.

Customs Administration	Official Budget	Fact	In %	Diff
Customs Duties	5,323	5,898	110.8%	575
V.A.T	101,759	95,347	93.7%	-6,412
Excises	44,900	39,027	86.9%	-5,873
a. Net excise		40,158		40,158
b. reimbursed excise		1,131		1,131
Others, of which		3,945		3,945
Royalty	4,218	3,875	91.9%	-343
Total Customs revenue	156,200	144,217	92.3%	-11,983

Source: Ministry of Finance

According to the table, the largest contributors to the revenue underperformance at GDC are: Value Added Tax, with approximately ALL 6.4 billion less than planned and excise tax revenues with about ALL 5.8 billion less than planned.

Revenues from VAT on imports:

The decline in revenue from VAT on imports is closely linked with:

- A general decline in international trade;
- Decline in the imports of energy;
- Increase in the imports of drugs and gold exempt from VAT (18% higher compared to 2014);
- Decrease of the oil prices in December 2015, due to the international oil prices decline;
- Reduction of the imports by minus 2.2% compared with 2014.

The table below shows the contribution of different commodities to the ALL 4.45 billion VAT shortfall at GDC, for the first 10 months of 2015. If this trend would continue until the end of the year, it will generate a minus of about ALL 5.2 billion.

Products	Missing VAT revenues	Reasons
Cigarette	-700,000	501 cigarette tons less than in 2014
Tobacco imports	-106,490	42 tons smoke less than the last year
Carburant imports	-1,097,840	24,5 thousand tons less than the last year
Water and other Liquids	-334,253	imports less
Liquid gas	-317,544	imports less
Sugar	-216,102	imports less

Electrical energy	-1,680,350	MW/h 1 million less than last year
Total	-4,452,579	

Source: Ministry of Finance

Revenue from excise

The main reasons for declining revenues from excise for 2015 are the following:

- For 2015, MoF forecasted that the total imports of cigarettes will reach 3,000 tons. Actually, there are imported 2470 tons will be imported by the end of the year. The latest plan envisaged that GDC will tax some 250 tons of cigarettes monthly for November and December. The imports in the last two months were low because there was no anticipation of the increased imports, due to no excise tax for 2016.
- Fuel consumption was expected to be 3.4% more than in 2014. For the month of November and December, MoF expects consumption of 47,168 tons of fuel for each month. The imports in the last two months were lower in than 2014 last year because there will be no change in the tax rates pertaining to fuels.

Revenue expectations from the Tax Administration

The 2015 GDT revenues were 182 billion compared to 181.7 billion that was the objective. The DGT has over performed by around 0.3 billion more. The below table gives the detailed data according to taxes.

Tax administration	Official Budget	Fact	In %	Diff
V.A.T	29,444	30,215	102.6%	771
Corporate tax	23,547	24,963	106.0%	1,416
Personal income tax	31,803	29,270	92.0%	-2,533
National taxes and other	31,351	30,586	97.6%	-765
Total tax revenues	116,145	115,034	99.0%	-1,111
Contributions collected by DGT	65,590	66,992	102.1%	1,402
Total DGT	181,735	182,026	100.2%	291

Source: Ministry of Finance

As it can be seen from the table, it has been a good performance of the main tax revenues, especially at VAT and contributions.

Revenues from value-added tax

VAT is a well performed tax at GDT. The main reasons of this over performance are closely related with the anti-informality reform the government is embarked in. This reform has increased the self-declaration of businesses of the real turnover and VAT payments (one of the principles that governs GDT in the administration of the tax system is promoting self- assessment and self- declaration of the taxes by the tax payer.

The anti-informality campaign was implemented by extending tax controls on:

- Usage of the fiscal cash register;
- Issue the fiscal coupon;
- Unregistered employees.

A public awareness campaign was done as well.

Preliminary results show good results of this reform. According to the tax administration data, there is an increase on some main indicators, as follow:

- New registered employees, with salaries under to ALL 30,000 per month, are 74,853 more in November 2015 compared with January 2015.

- There are 100,000 new contributors at the contributions scheme in November 2015 compared with January 2015.
- There are 37400 new business registered during 2015 compared with 2014.

Revenues from profit tax

This tax has been over performed compared to the objective by ALL 1.4 billion. The main reason of this over performance is related with the prepayments of the corporate tax by Bankers Company, based on an agreement.

Personal income tax (TAP)

TAP collections were lower than expected by ALL 2.5 billion, because of: (a) the falling interest rates throughout 2015; (b) the pre-payment of dividends in December 2014 and the consequent drop in dividend payments in 2015.

National and other taxes

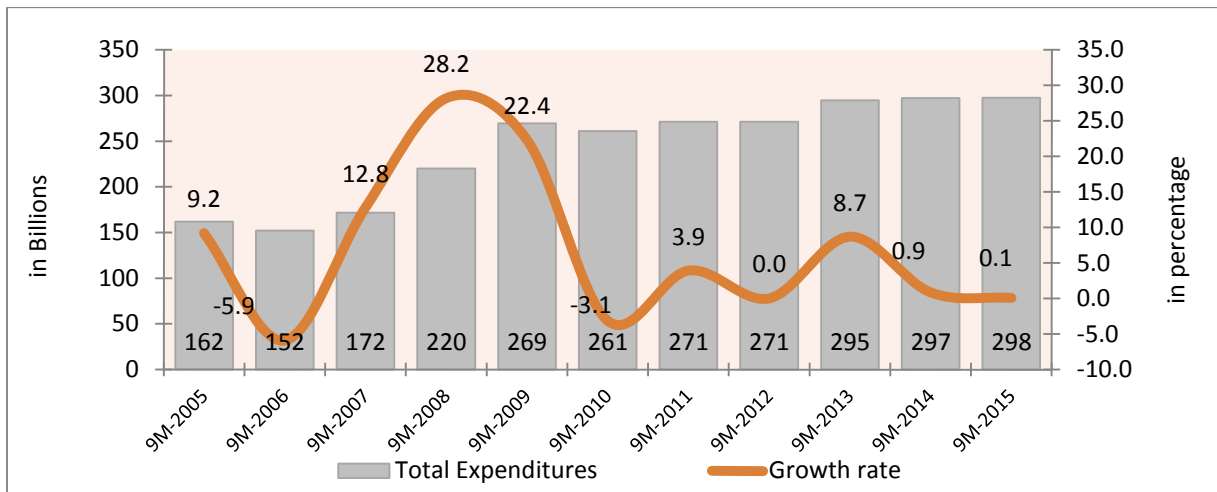
National taxes, which consist of a number of taxes are collected by different agents (not only GDT), have been underperformed compared to the objective, by minus ALL 0.7 billion. The main reason of this underperformance is related with the decline from the expected fuel imports. Fuel imports are subject of the tax and circulation tax that are collected by the DGC as tax agent, and reported under “National taxes” of the DGT.

Expenditures

The timely implementation of the budget, besides being a guiding factor, contributes to and stimulates the economy through public expenditures. In this context, the implementation of effective and timely budget expenditures, according to the plan agreed with the International Monetary Fund remains a priority of the government and all other budgetary institutions. The Ministry of Finance has contributed in facilitating this process by harmonizing the requirements of the budgetary institutions with the Government's fiscal policy. Also, MoF dealt with any specific competence to fluctuations in government expenditures in the nine-month report for 2015.

Overall Public expenditures for the period January-September 2015 amounted to about ALL 298 billion or ALL 14.6 billion less than the plan of ALL 312 billion. In annual terms, total expenditures for the first nine months were 70 percent of the annual plan. Actual expenditures, compared with the plan were approximately 2% lower, which indicates a very good realization and substantial compliance with the plan. This decrease mainly stems from the lower capital expenditures and the liquidation of arrears. Capital expenditures are the main reason for the shortfall (explaining 14% of the shortfall). Current expenditures and the arrears are realized at very satisfactory levels, respectively 97% and 96%. The shortfall of capital expenditures is a result of various factors, but main factor is the delay in the tendering process or delays in the submission of technical and financial documentation for the disbursement of funds.

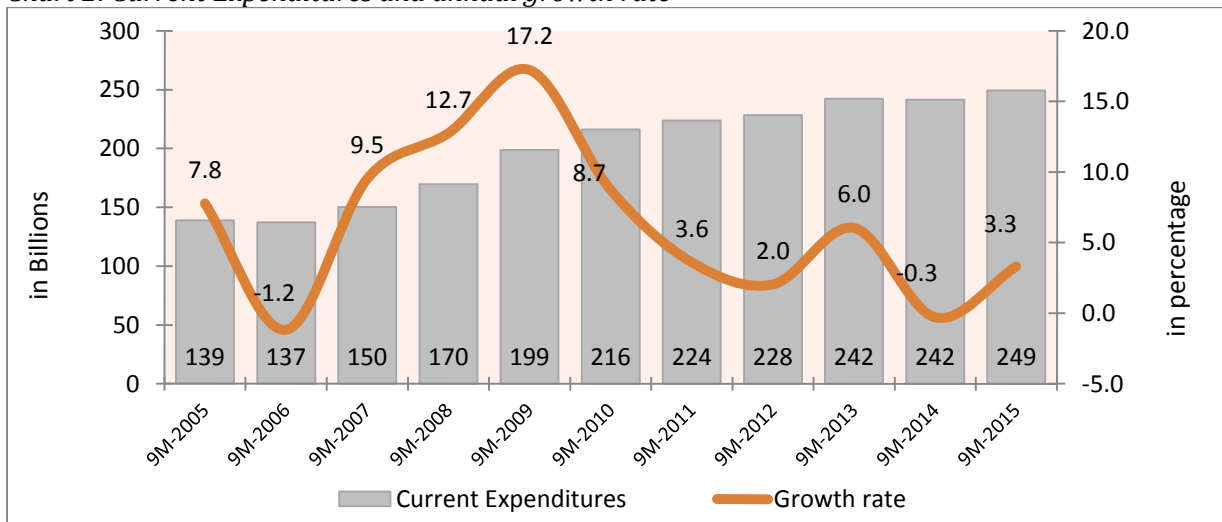
Chart 1: Total Expenditures and annual growth rate



Source: Ministry of Finance (2015)

Current expenditures realized 97% of the plan, (ALL 249.4 billion out of ALL 257 billion planned). Among the main items that contributed to the reduction of current expenditures were: maintenance operating expenditures, local government expenditures and other social expenditures. It should be taken into the consideration that there was a significant increase of expenses in these three items, compared to the same period of a year ago. Meanwhile, these expenses result below the forecast. The review of the administrative structures of public institutions, as well as effective management staff cost brought about ALL 7.6 billion in savings for the period of nine months. Also, the lower level of public expenditures is associated with a lower deficit, and hence, lower need for its financing. This is associated with a saving of operating costs for maintenance of ALL 1.6 billion. The local government expenditures were ALL 3.3 billion lower than the plan.

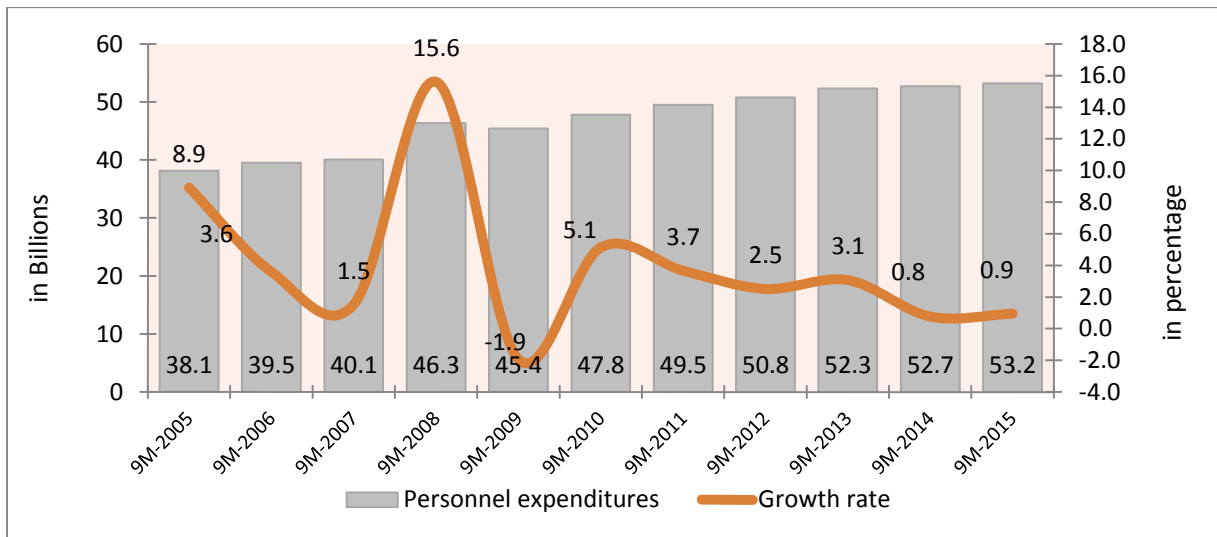
Chart 2: Current Expenditures and annual growth rate



Source: Ministry of Finance (2015)

Personnel expenditures represent 21 percent of total current expenditures realized during the period January-September 2015. The actual personnel expenditures of ALL 53.1 billion result almost to the level of forecast period of ALL 53.9 billion. Compared with the same period of the previous year, personnel expenditures result ALL 500 million more, or 1.3 per cent higher. This shows a slight upward trend of personnel expenses for the first 9 months of 2015.

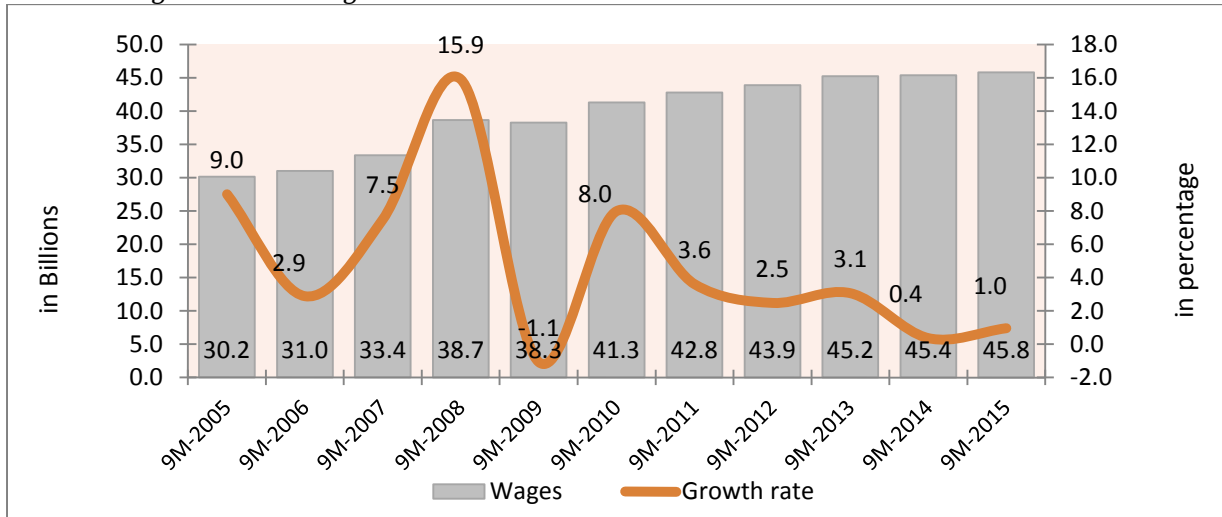
Chart 3: Personnel Expenditures and annual growth rate



Source: Ministry of Finance (2015)

Expenditures for wages are about 0.6 percent higher than a year ago or ALL 600 million more, while expenditures on social security contributions are approximately ALL 7.4 billion more or 0.8 percent higher than a year before. While wage expenditures result 0.9 percent below the forecast period, expenditures on social security are realized 3.2 percent below that level. At the same time expenditures on wages and for social security are respectively at levels 72 and 70 percent of annual planning.

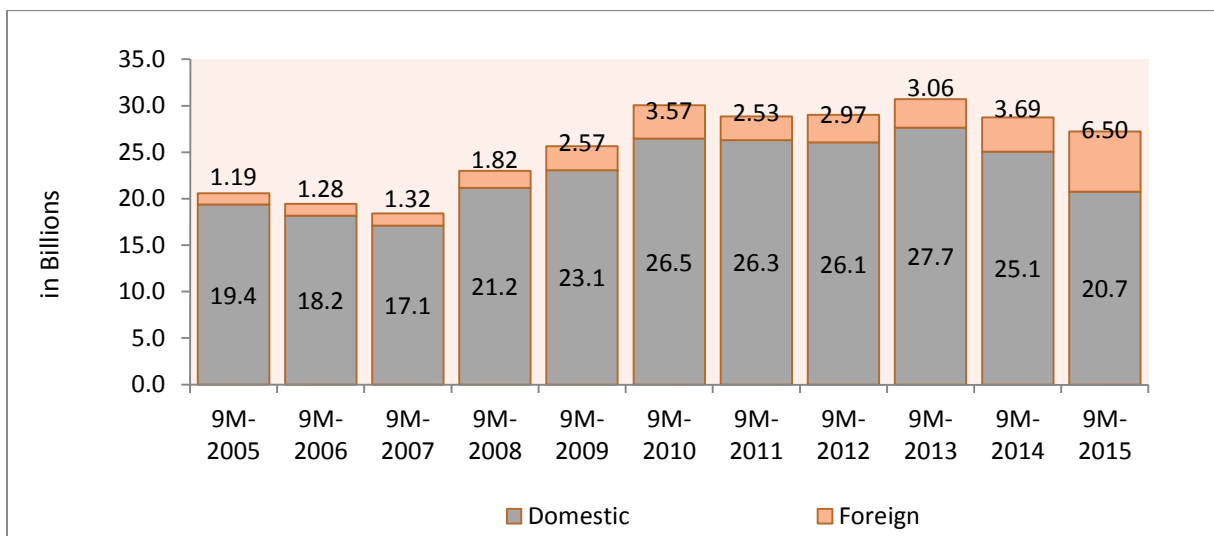
Chart 4: Wages and annual growth rate



Source: Ministry of Finance (2015)

Interest expenditures represent about 11% of the total current expenditures realized during the period January - September 2015. They were ALL 349 million lower than the forecast. There was ALL 1 million in savings in domestic interests and ALL 348 million in foreign interests. Against the annual plan, interests were realized at 67%. Interest expenditures were 5.2% lower than a year ago, saving ALL 1.59 billion.

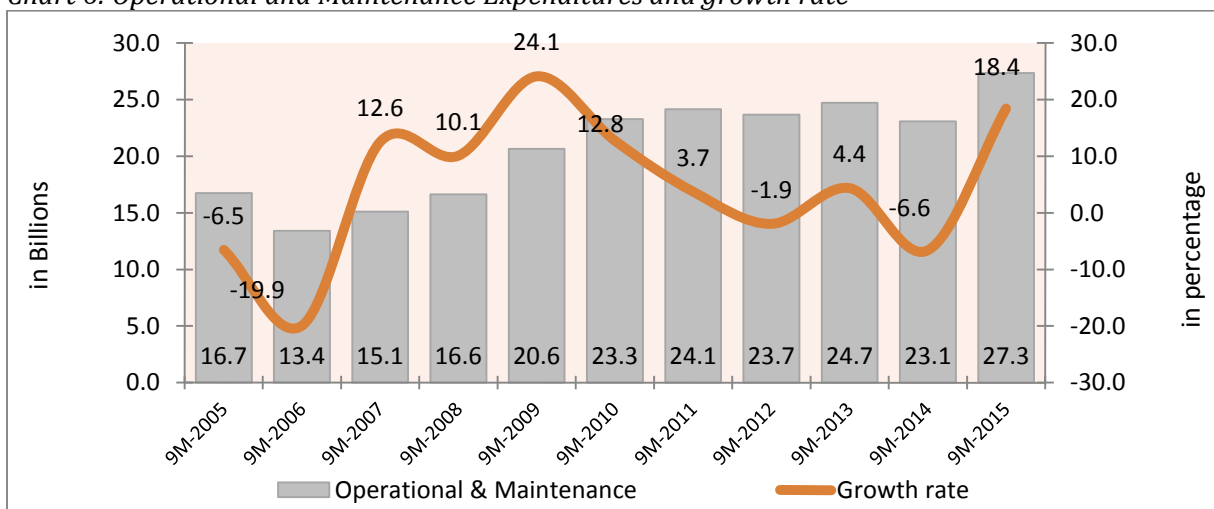
Chart 5: Interest Expenditures



Source: Ministry of Finance (2015)

Operational and maintenance expenditures during January - September 2015 amounted to ALL 27.3 billion, about ALL 1.6 billion below the projected levels. They realized 66% of the annual plan. The graph below shows that compared to the same period of 2014, there was a significant increase of ALL 4.2 billion.

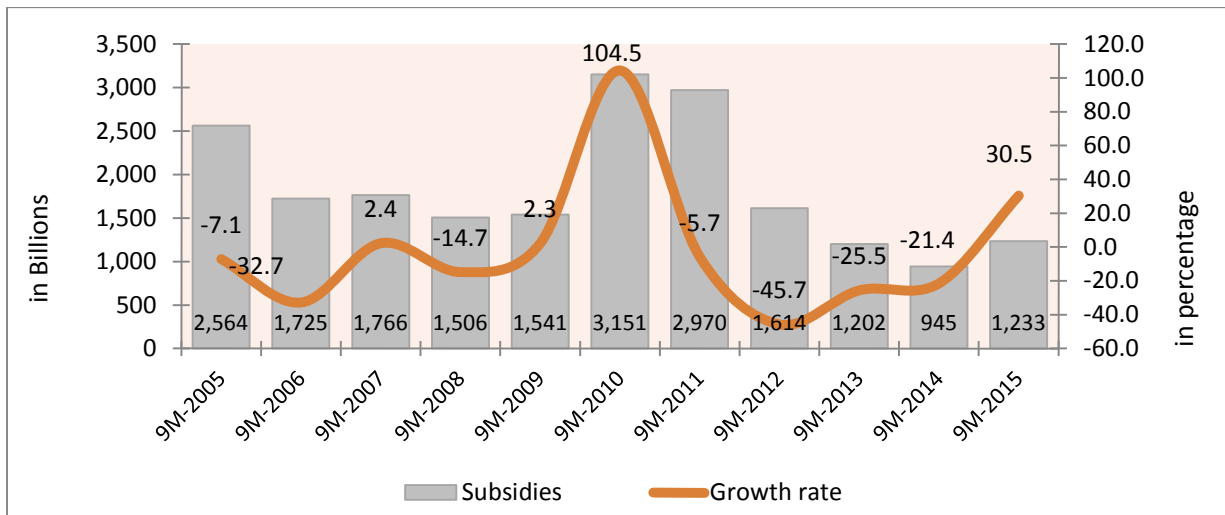
Chart 6: Operational and Maintenance Expenditures and growth rate



Source: Ministry of Finance (2015)

Subsidies at the end of September 2015 reached the amount of ALL 1.23 billion, or ALL 52 million less than expected, reaching 70% of the annual plan. Compared to 2014, these expenditures resulted in ALL 288 million increase or 30.4% higher spending.

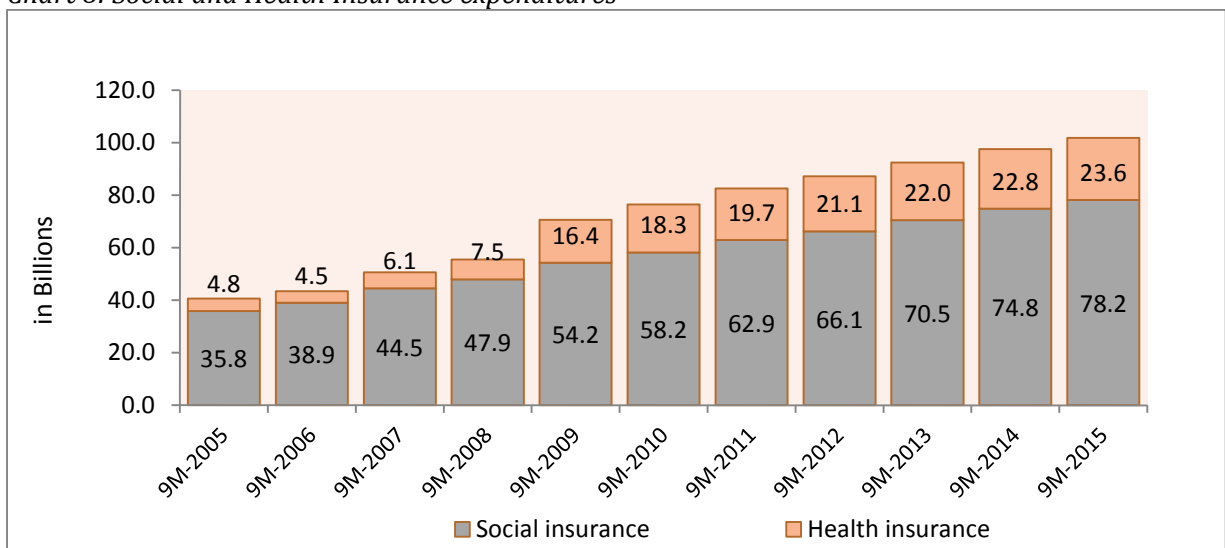
Chart 7: Subsidies and annual growth rate



Source: Ministry of Finance (2015)

Expenditures for special funds during January - September 2015 were ALL 614 million below the forecast, realizing 72% of the plan. Social insurance expenditures realized 73% of the annual plan, health insurance 68%, and compensation of the owners 53%. Compared to 2014, social insurance expenditures increased by ALL 3.4 billion, while the expenditures for health insurance increased by ALL 810 million (3.6% higher). Expenditures for compensation of the owners were ALL 76 million below the forecast and ALL 239 million lower than in 2014.

Chart 8: Social and Health Insurance expenditures

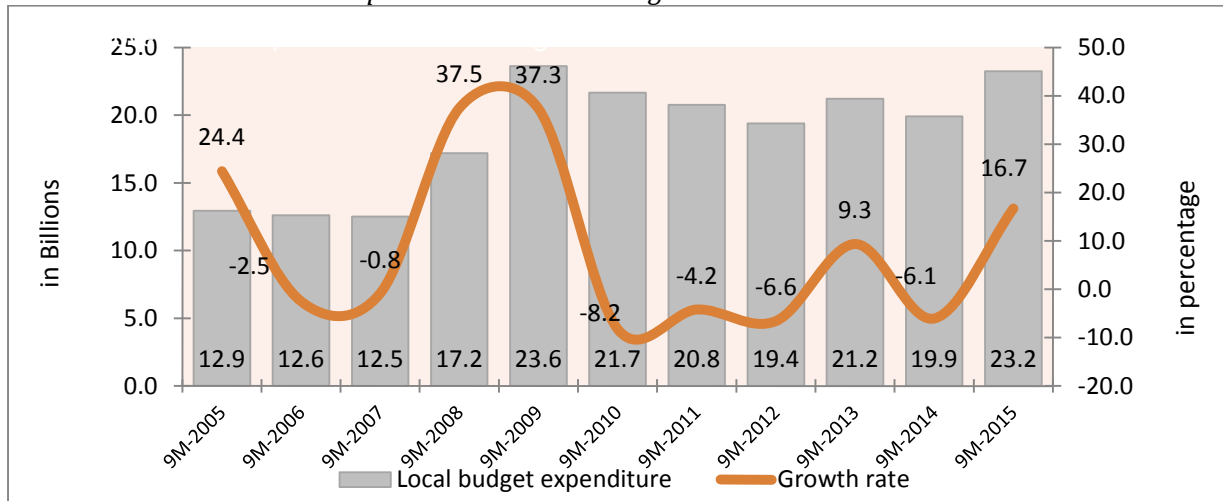


Source: Ministry of Finance (2015)

Local government expenditures constitute 9.3% of the current expenditures in the first nine months of 2015. This shows the commitment and the effort of central government to increase the level of expenditures by local governments. These expenditures were ALL 23 billion from ALL 26

billion planned for this period of 2015, resulting in a saving of about ALL 4 billion or about 19% below the forecast. These expenditures reached 51.7% of the plan. Compared with one year ago these expenditures increased by ALL 3.3 billion or 16.7%. This increase is in the framework of strengthening the important role of local governments.

Chart 9: Local Government expenditures and annual growth rate



Source: Ministry of Finance (2015)

Unemployment benefits realized 91.5% of the forecast for the first nine months, or 47% of the annual forecast. These expenditures were ALL 241 million (19.6%) lower than in 2014. This convincingly supports the fact that due to declining numbers of unemployed persons, the budgetary support for these has been declining too.

Economic assistance during January - September 2015 was ALL 754 million (5.7%) below the forecast. This is a 62% realization of the annual plan. The above figures mean that, in addition to the reduction in unemployment benefits, the burden of economic assistance expenditures declined as well. This comes as a direct way of promoting economic and employment expansion in the market. Compared to 2014, economic aid declined by ALL 3.3 billion or 23%.

Compensation for the politically persecuted, at the end of September 2015 reached ALL 1.5 billion or ALL 107 million less than the forecast, being at the same time about 76% of the annual plan. This is a satisfactory performance vis-a-vis the original plan. Compared to 2014, these expenditures are ALL 1.2 billion (429%) higher. Increasing the amount of compensation for the Ex-Politically persecuted comes as one of the priorities of the government to assist in the settlement of these obligations. Recognizing the fact that most of these families are in economic need, the compensation is viewed as a positive development because it raises the income of low-income families.

Repayment of arrears remains a priority of the government, in the context of the restoration of public finances in the trajectory of long-term sustainability. The annual plan for the settlement of arrears for 2015 is ALL 20 billion. The data for the settlement of these obligations indicate for a normal continuation of this process. For the period January-September 2015, expenditures for the payment of arrears, were ALL 15,099 million from ALL 15,790 million planned. In relative terms, the realization is 96% in the first nine months or 75 % of the annual plan.

Table: Consolidated Fiscal indicators for January-September 2015

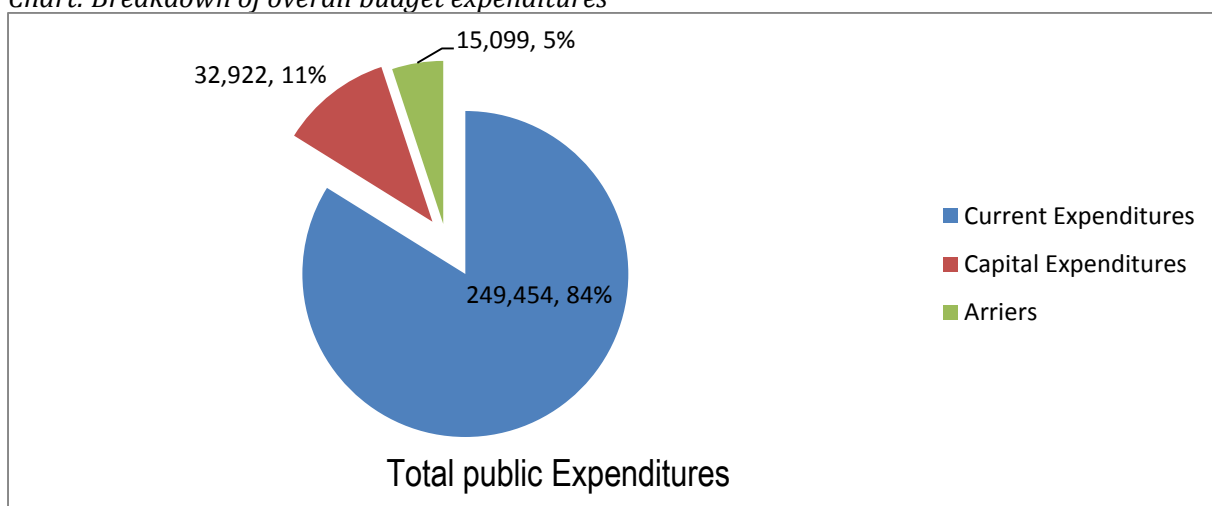
Nr	Items	Plan	Fact	Difference		Annual Plan	% of annual realization
		September 2015	September 2015	Fact / Plan	% over Plan 2015		

Total income	285.919	278.924	-6.995	98%	398.210	70%
Total expenditures	312.137	297.475	-14.662	95%	456.437	65%
I. Current Expenditures	257.094	249.454	-7.640	97%	367.201	68%
II. Capital Expenditures	38.383	32.922	-5.461	86%	63.284	52%
III. Arrears	15.790	15.099	-691	96%	20.000	75%
Deficit	-26.218	-18.511	7.667	71%	-58.227	32%

Source: Ministry of Finance (2015)

The chart below shows the actual allocation of public expenditures for 9 months of 2015, in million ALL. Current expenditures for January-September 2015 represent about 84% of actual expenditures or ALL 249 billion; capital expenditures comprise only 11% of actual expenditures or ALL 32 billion; and expenditures for repayment of arrears, which account for about 5% of the total factual public expenditures or ALL 15 billion.

Chart: Breakdown of overall budget expenditures

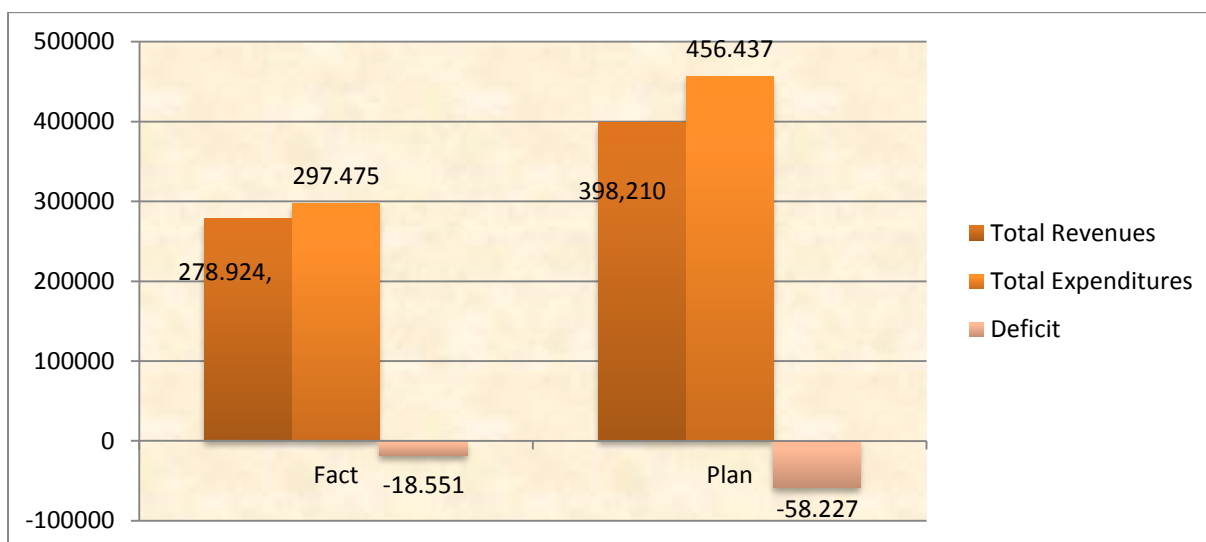


Source: Ministry of Finance (2015)

Capital expenditures. Our analysis of the performance of public domestic and foreign investments for the period January - September 2015, shows a significant shortage of foreign investments. Domestic investments, on the other hand, are at satisfactory, although not at desired levels. This shortfall of foreign investments occurred for various reasons, one of which was the delay in the implementation of the procurement process. Other reasons were associated with delays in filing of technical documents and financial disbursement of funds. In general, capital expenditure execution has almost the same trend in all line ministries, namely reflecting their weak performance. As a result, this also affected to a large extent, the total capital expenditures for the nine-month period compared with the plan.

As shown in the table of consolidated fiscal indicators, total revenues were ALL 279 billion or ALL 6.9 billion less than planned in the nine-month period. At the same time, the total expenditures amounted to ALL 279 billion, or 6.9% less than planned. This is accompanied by a budget deficit of about ALL 19 billion, which is ALL 8 billion lower than the plan. We can say that this led to increased credibility in the government from the side of the markets and the national and international partners. This outcome is related to a prudent policy for the improvement of public finances and achieving positive growth.

Chart: The chart of revenues, expenditures and budget deficit



Source: Ministry of Finance (2015)

The chart above shows the positive trend in the budget deficit in the observed period. Compared with the forecast plan, we have decreased revenues, but also a slower trend of actual expenditures compared to the plan, which has significantly reduced the budget deficit. This points out that the government set in place an effective and prudent budgetary policy, which increased the budgetary sustainability and respects the principles of a consolidated budget.

3.3. Medium-term budgetary outlook

Projected revenues from GDT and GDC for 2016

Based on the State Budget 2016, the "Tax and Custom " revenue are planned at 282,1 billion or 23 billion more than the Fact 2015, or 8,9% more.

Unlike previous years, the revenue forecast is not based on historical method by forecasting the tax revenues using the macro framework indicators as a multiply, the real economic growth plus deflator. Based on recommendations of the IMF mission in June 2015, the analysis of the performance of revenue for 2015 is pursuing a more technical approach to revenue forecasting to analyse each product, especially in customs revenues, and not using the macro framework's indicators for all the tax types.

Revenues	Fact 2015	Budget 2016	+/-	+/- %
Tax and customs revenue	259,181	282,211	23,030	8.9%
Value added tax	125,562	137,916	12,354	9.8%
Corporate Tax	24,963	24,314	(649)	-2.6%
Excise	39,027	44,653	5,626	14.4%
Personal income tax	29,270	32,073	2,803	9.6%
National taxes	34,461	37,219	2,758	8.0%
Customs duties	5,898	6,036	138	2.3%

Source: Ministry of Finance (2015)

It is important to emphasise that, at early November 2015, when we estimated the revenues for 2016, we estimated as well as the revenues for 2015 that serves as base for the calculation the 2016 Revenues. Actually, the Fact 2015 revenue are ALL 259,2 billion from our estimation at ALL 262,1 billion, So the differences by ALL 2,8 billion as the difference of the estimation for 2015, will be transposed at 2016 Revenue. For the sake of the consistency, the below material describes the revenue forecast AT November 2015.

The main sources of additional income for 2016 for income from GDT and GDC are expected to be:

- Good administration;
- Fiscal policy in 2016;
- Macro framework;
- Fight against informality;
- Other

Label	Budget 2015		Draft Budget 2016				Total	Diff Budget 2016/2015	% growth 2016/2015
	Estimation Budget 2015	Fiscal policy and other	Good administration	Macro framework	Informality	Other			
Tax & customs									
Total	262,114	1,049	2,536	5,906	8,576	2,030	282,211	20,097	7.67%

Source: Ministry of Finance (2015)

Good administration of certain sectors and critical procedures

Good administration of some sectors is expected to generate about ALL 2.5 billion in additional revenues, as follows:

- The formalization of the mobile market through the establishment of a database at GDT, with about ALL 500 million effect on VAT in 2016;
- The removal of the inward processing regime, the pending VAT, which is expected to generate additional ALL 1.5 billion;
- Good administration of royalty on non-metallic minerals, at around ALL 400 million, revenue which will come from changing the tax base of these minerals, the percentage of sales price fixed amount per ton or m3.
- Good monitoring of the cigarettes letter that will yield 0.1 billion.

Fight against informality

Revenue from the fight against informality is expected to generate about ALL 8.5 billion. This calculation takes the following into account:

- Good administration of cigarettes. It is estimated that during 2016, there will be imported 3,000 tons of cigarettes, or 522 tons more than 2015. For 2015, there are imported 2478 ton cigarettes. We had estimated that the cigarettes imports for 2014 will be 2600 ton , but the fact imports are 2478 tons for 2015. So the difference has to be covered within 2016 as the target of 3000 ton cigarettes for 2016 remain unchanged.
- Good administration of oil. For 2016, there are estimated to be imported 533,670 ton of oil by 5.57% compared to fact 2015 by 505,519 ton of oil. We had estimated on increase by 3,4% compared to the estimated 2015 oil imports, but dur to the fact that the oils imports were decreased by 12 000 ton from our estimation, the difference has to be done during 2016, as the quantity by 533 670 ton remain unchanged.

Macroeconomic framework

The total additional revenue from the macroeconomic factors such as real GDP growth is expected to be ALL 5.9 billion. In order to remain cautious in the calculation of expected revenues, we only applied the rate of expected real GDP growth (3.4%) and we disregarded the deflator. In this way we deviate from the methodology applied for the 2016 forecast. This deviation is justified by the observation that there is no one-to-one relationship between macroeconomic indicators and revenue growth, as we witnessed in 2015. Based on recommendations of the IMF, real economic growth is not applicable to all taxes. Therefore, the real economic growth rate is applied on:

- Domestic VAT;
- PIT revenue, with the exception of income from dividends and interest;
- Corporate tax.

Macroeconomic framework is not implemented on:

- Imports VAT, as the revenue forecast is done on the basis of the product and in particular for fuel, cigarettes, and separately for all other products of the group;
- Revenue from excise tax, because the prediction is made on the basis of the product and in particular for fuel, cigarettes, and separately for all other products of excise group;
- National tax revenues which by nature are not related to the collection of their growth. Evaluation of this item is based on the type of tax;
- Revenue from mineral royalties, because the assessment is made on the basis of the quantities and prices of mineral products, while remaining the same in 2015.

The effects of fiscal policy

The additional revenues expected as a result of changes in fiscal policy should be modest, amounting to ALL 1 billion. The fiscal policy consists of adjustments to some taxes, as follows:

- Increase in the annual premium from 3% to 10%, with an expected effect of ALL 0.7 billion in additional revenues;
- ALL 0.34 billion from the new taxes on luxury cars.

Others

The revenues from other factors are estimated at ALL 2 billion. Some factors which negatively affected the 2015 tax collections are not expected to persist in 2016. Specifically:

- There are estimated at ALL 1.2 billion from personal income tax as in 1st January 2015 entered into force the law on increase of the tax by 15% from 10%. In January 2015, for certain taxes, it has been paid for the revenues generated in December 2014, so the tax was paid with 2015. This issue will not be in January 2016.
- Hence, we expect that revenues will be ALL 1.2 billion higher in 2016 than in 2015.
- The item "Corporate tax" is calculated ALL 800 million, GDT in January 2015 implemented an IT system that cost ALL 800 million, the amount was deducted from the tax on income that collects GDT.

The revenue forecast for 2016

Value added tax:

Revenues from value added tax are estimated at ALL 137.9 billion, ALL 10 billion more than the 2015 expectation, or 8.03% increase compared to 2015.

Label	Budget 2015	Draft Budget 2016						Budget dif /2015	2016/2015 growth (%)
	Budget assessment 2015	Fiscal policy and others	Good administration	Macro framework	Informality	Others	Total		
Value added tax	127,666	0	2,036	3,278	4,936	0	137,916	10,250	8.03%

Source: Ministry of Finance (2015)

The impact on revenue growth is explained below.

Source of income from VAT for 2016 will be as follows:

Good administration income of ALL 2 billion. These will mainly come from the formalization of the market for mobile phones, (estimated at ALL 500 million), and from the removal of the VAT exemption regime for the active processing mode (ALL 1.5 billion).

Mobile phones:

General data for 2014 on the mobile devices market signal that sales of this product were around 500 thousand pieces. Sales stated are for 150 thousand pieces, which means that 350 thousand handsets were sold outside the fiscal system, the informal market. The revenues lost on VAT are estimated around ALL 1 billion. For addressing this problem, it is intended to formalize this

sector through the establishment of a database on registering the IMEIT number of each imported cell phone or each cell phone sold domestically. The database is intended to be established at the DGT.

RPA:

The removal of the inward processing regime with VAT will be suspended for all goods excluding inward processing regime confection. Some goods are imported under this regime saying that it will be exported again, but in fact is sold in the country. This regime brings an unfair competition and the Customs Administration will not use any more, starting from 2016.

The additional income from macro-economic factors is expected to amount to ALL 3.2 billion as follows:

- 3.4% higher domestic VAT (an increase equal to the rate of expected real economic growth);
- 2.3% (ALL 2.2 billion) higher revenues from VAT on imports for all products with the exception of VAT on fuel.

The revenues resulting from the fight against informality are estimated to be ALL 4.9 billion. These revenues consist of:

- ALL 2.4 billion higher revenue from domestic VAT resulting from the campaign against informality. The estimate is based on earnings in 2014, the increasing number of businesses in the scheme and the restructuring of businesses as a result of increased self-declaration;
- ALL 622 million additional income from increased imports of cigarettes of about 400 tons vis-à-vis 2015;
- 3.4% (ALL 1.8 billion) additional revenue from increased imports of fuel vis-à-vis 2015.

Excise

Excise revenues are estimated to be 44.6 billion ALL, 4 billion (or 10%) more than in 2015.

Naming		Budget 2015					Draft Budget 2016			Budget Diff	% growth
Taxi & Customs	Assessment 2015 budget	Policy fiscal and other	Good administration	Macro framework	Informality	Other	Total	2016/2015	2016/2015		
Excise	40,585	0	100	1,015	2,953	0	44,653	4,068	10.0%		

Source: Ministry of Finance (2015)

Additional revenues from excise taxes are expected to be generated by:

- ALL 1 billion higher excise collections from all products subject to excise except for cigarettes and fuel (which are assessed separately). Data from the first 10 months of 2015 shows a significant increase (over 20%) in excise collections from products such as beer, wine, coffee and energy drinks.
- ALL 100 million additional revenue from good administration of cigarette raw materials from the importer to retail;
- ALL 2 billion additional excise revenues from imports of cigarettes (400 tons more than in 2015) and ALL 922 million additional revenues from imports of fuel. Both of these are related to the fight against informality.

Fuels

Fuel consumption in the country is estimated to grow at the rate of real economic growth of 3.4% in 2016. The total 2015 consumption was 516,121 tons oil, of which 474,923 tons fuel was imported and 41,199 tons of fuel was locally produced. We estimate a 3.4% growth of fuel consumption for 2016 vis-à-vis 2015 that is a total of 533,669 tons. We assume that the whole amount of fuel will be imported. Hence, all tax revenues from fuel will be revenues collected by the Customs Administration.

Cigarettes

The Ministry of Finance in cooperation with the customs administration, estimates that for 2016, imports of cigarettes in the country will be about 3,000 tons, i.e., 400 tons more than in 2015 estimated. This assessment is made on the following bases:

- Measures taken by the government in the fight against informality have an important pillar coordinating the work of the customs administration of the other institutions in the country to manage cigarette excise taxes, especially domestic production.
- Part of the package Fiscal 2016 there will be no change for excise 2016, this is expected to increase import of cigarettes compared with 2015.

The increased imports of these two main products will also generate additional revenues in customs duties and VAT, as follows:

- ALL 2 billion additional excise and ALL 622 million additional VAT ;
- ALL 1.87 billion additional VAT and ALL 911 million additional excise compared with 2015, resulting from expected higher consumption of fuel by 3.4% and higher dependency on imports. The home refinery is not expected to produce any fuel in 2016.
- ALL 95 million more revenue from customs duties from the expected increase in cigarettes imports;
- ALL 590 million more revenue from circulation and carbon taxes, which are included in the forecast of sound "and other national taxes".

Income tax

Revenue from income tax is expected to be ALL 24.3 Billion or 6.9% more than in 2015.

Label	Budget 2015		Draft Budget 2016					Budget Diff 2016/2015	% growth 2016/2015
	Estimation 2015 budget	Policy fiscal and other	Good administration	Macro framework	Informality	Other	Total		
Tax & Income tax	22,741	0	0	773	0	800	24,314	1,573	6.9%

Source: Ministry of Finance (2015)

Besides real economic growth of 3.4% in income tax revenues have increased by ALL 800 million, compared with 2015 that this revenue covered the costs of the implementation of the IT system for GDT.

Revenue from personal income tax

Revenue from personal income tax is expected to be around ALL 32 billion or 6.6% more than in 2015.

Label	Budget 2015		Draft Budget 2016					Budget Diff 2016/2015	% growth 2016/2015
	Assessment 2015 budget	Policy fiscal and other	Good administration	Macro framework	Informality	Other	Total		
Personal Income tax	30,091	0	0	752	0	1,230	32,073	1,982	6.6%

Source: Ministry of Finance (2015)

Two main factors are taken into account. The growth by 2.5% compared with 2015, as well as the "January 2015" effect. In January 2015 withholding taxes were paid with 10% for the month of December 2014 accounts

National taxes and other

National tax revenue are estimated at ALL 37.2 billion, or about ALL 2 billion (5.8%) more the 2015 forecast.

Label	Budget 2015	Draft Budget 2016	Budget Diff	% growth
-------	-------------	-------------------	-------------	----------

								2016/2015	2016/2015
Tax & National taxes and other	Assessment 2015 budget	Policy fiscal and other	Good administration	Macro framework	Informality	Other	Total		
	35,182	1,049	400	0	588	0	37,219	2,037	5,8%

Source: Ministry of Finance (2015)

The source of income for this line will be the fiscal policy measures and good administration.

- 1.4 billion ALL additional revenues from measures of fiscal and tax.
- 580 million ALL additional revenues in circulation and carbon taxes as a result of increased imports of fuel.

The effects of the fiscal package included in this item are:

- Increase in the premium of 3% to 10%, with effect of ALL 700 million;
- Introduction of a registration fee of ALL 70,000 for luxury cars. Introduction of an annual fee of ALL 21,000 for luxury cars with cylinder 3000 cm³, with about ALL 349 million effect on revenues.

Income from good administration, estimated to amount around 400 million, which will come as a result of good management of mineral royalties for non-metallic minerals. This will be achieved by replacing the current system of mineral royalty tax on non-metallic minerals in fixed fee per ton or m³.

Income from customs taxes

Revenues from customs duties are estimated at about ALL 6 billion or ALL 187 million more than in 2015 (3.2% growth).

Label	Budget 2015		Draft Budget 2016					Budget Diff 2016/2015	Growth 2016/2015
	Assessment Budget 2015	Fiscal policy and others	Good administration	Macro Framework	Informality	Other	Total		
Custom taxes	5,849	0	0	88	99	0	6,036	187	3.2%

Source: Ministry of Finance (2015)

Impact on this item has additional revenues from the increase in imports of cigarettes, which applies a 10% customs tax and increased imports.

Local government revenues

Local government revenues are estimated to be around ALL 16.5 billion or ALL 3.9 billion (31.4%) more than the expectation for 2015.

	Official Budget 2015	Budget 2016	% of increase 2016/2015	Dif.2016/2015
Local government revenues	12,563	16,502	31.4%	3,939
Property tax	4,017	5,260	30.9%	1,243
Local taxes	7,066	10,976	55.3%	3,910
Simplified tax on small businesses	1,480	266	-82.0%	(1,214)

Additional revenues will be generated by:

The property tax

The property tax is expected to increase by 30.9% compared to the 2015 forecast. The basis for the increase is that the additional revenues are expected to come from introducing a land property tax.

Property tax consists of:

- property tax on buildings
- property tax on land

Tables below present the tariffs for each category for each of the types of taxes:

Indicative levels of tax that building, 2015/2016

RESIDENTIAL BUILDING	Zone 1	Zone 2	Zone 3
Built before 1993	15 ALL / m2 per year	10 ALL / m2 per year	5 ALL / m2 per year
Built during and after 1993	30 ALL / m2 per year	12 ALL / m2 per year	6 ALL / m2 per year
II-Other Building			
Trade and services	400 ALL / m2 per year	300 ALL / m2 per year	200 ALL / m2 per year
Other	100 ALL / m2 per year	60 ALL / m2 per year	40 ALL / m2 per year

Source: Ministry of Finance (2015)

Agricultural land tax 2015/2016

Classification category of land	Distribution by districts			
	1	2	3	4
I	5 600 (ALL/ha)	4 200 (ALL/ha)	2 800 (ALL/ha)	1 400 (ALL/ha)
II	4 900 (ALL/ha)	3 500 (ALL/ha)	2 100 (ALL/ha)	1 200 (ALL/ha)
III	4 200 (ALL/ha)	2 800 (ALL/ha)	1 400 (ALL/ha)	1 100 (ALL/ha)
IV	3 600 (ALL/ha)	2 300 (ALL/ha)	1 350 (ALL/ha)	1 000 (ALL/ha)
V	3 000 (ALL/ha)	1 900 (ALL/ha)	1 250 (ALL/ha)	900 (ALL/ha)
VI	2 400 (ALL/ha)	1 600 (ALL/ha)	1 200 (ALL/ha)	800 (ALL/ha)
VII-X	1 800 (ALL/ha)	1 400 (ALL/ha)	1 100 (ALL/ha)	700 (ALL/ha)

Source: Ministry of Finance (2015)

Starting from this year, the urban land will be taxed as property tax. The law foresees different urban tax level, according to usage- household or business, and according to different municipalities, as for agricultural land.

Small business tax

Small business tax will decrease by minus 82% compared to 2015. The reduction is related to the abolishing of the simplified income tax for small business. This will affect around 83 820 small businesses. Additionally, the income tax will be reduced by 33% for another 15,830 businesses. This fiscal policy, effective from 1 January 2016, is in line with the government's program to ease the fiscal burden on small businesses. The negative effect on revenues is estimated to be minus ALL 1.3 billion.

The table below shows on small business tax for the years 2015 and 2016

The level of the simplified tax on small business, 2015/2016

Year	Annual turnover	Tax rate
2015	ALL 0-2 million	25 000 ALL per year, lump sum tax
2015	ALL 2-8 million	7.5% of taxable profit
2016	ALL 0-5 million	0 ALL per year
2016	ALL 5-8 million	5% of taxable profit

Local taxes

Local tax revenues of local governments are expected to increase by 55.3% compared to the 2015 forecast. The source of the increase will be:

- Increase of the local tax of infrastructure impact when the construction is for industrial and household purpose;
- Redefinition of the advertising tax;
- Well administration of the local tariff for the usage of the public space;
- Good administration of taxes of local government, as a result of administrative improvements by local government authorities, the new management and the new territorial structure.

Revenue from the Special Funds

Revenue from social security contributions and health are estimated to be around ALL 77.5 billion, or 10.57% more compared with expectations for 2015 or ALL 7.4 billion.

Increased revenue from contributions provided influenced by these factors:

- Fiscal and other policies are expected to bring an increase of ALL1.1 billion
- Macro framework is expected to bring an increase of ALL 2.1 billion
- Informality is expected to bring an increase of ALL 4.1 billion

Label	Estimation budget 2015	Budget 2016	Growth 2016/2015	Diff. 2016/2015
Special Funds	70,090	77,500	10.57%	7,410
Social contributions	60,717	66,871	10.14%	6,154
Health contributions	9,373	10,630	13.41%	1,257

Source: Ministry of Finance (2015)

The generation of additional revenue contributions will come from some basic factors:

- The campaign against informality, which started in September 2015. The early results of the campaign clearly indicate that the taxable base grew by over 70,000 new people. Referring to the data of the tax administration, have joined the scheme over 30 thousand businesses, about 30 thousand people pay contributions as "self-employed" and 40 thousand other as "employed". Estimates of additional revenue to the state budget from social security contributions of new employees are based on the minimum wage of ALL 22,000 per month. For this reason, and considering that the reform against informality will have its main impact only in the medium term, the estimates above do not take into account the potential additional revenue from personal income tax.
- Some professions such as lawyers, interpreters, executors, notaries, engineers, dentists, doctors, property evaluators and so on, pay social and health contributions at the minimum wage of ALL 22 thousand. From the entry into force the 2016 fiscal package, from 1 January they have to pay contributions on 3 times minimum wage, average. We specify, average, as the salary based on which certain profession will pay contributions varies based on the type of profession, the place where the economic activity is done, the equivalent salaries at public sector or the number of employees. The effect on the budget is estimated ALL1.1 billion.
- Economic growth. As a result of economic growth, contributions are expected to increase by 2.9%.

Assumptions made in revenue forecast for 2016

- Economic growth 3.4%;
- Inflation 2.9%;
- No further decrease in international prices of fuel;
- No further decrease in imports of electricity;
- Domestic oil processing in 2016 at low levels;
- Private domestic hydropower plants will continue to be with VAT credit balance (except ASHTA);
- Interest rates remain as they are in 2015 (1.75%).

Additional income that can be generated in 2016 but were not considered in the calculation:

- Changes made recently in the tax law procedures stipulate a fine of 15% of the previous instalment of income tax, if it is not paid on time. This measure is expected to generate additional revenues that are not factored in;
- Extra income from the dividend expected to be paid more in 2016 because in 2015 incomes from dividend were less than expected due to prepayment in December 2014. Calculations were not taken because the income from the dividend depends on a company's decision whether to distribute dividends or to reinvest.

Expenditures

In the context of the undertaken reforms during the last two years, the budget proposal for 2016 enables us to achieve a fiscal consolidation, that is, a gradual reduction of the public debt from the expected 72.6% of GDP in 2015, to 70.9% of GDP in 2016. From the macroeconomic point of view, the 2016 budget proposal assumes:

- Real economic growth of 3.4%, up from 2.7% in 2015;
- A steady level of public investments at 5.0% of GDP, focusing mainly in such sectors as: potable water and irrigation, energy, innovation, tourism and infrastructure of central and local roads;
- Continuity of structural reforms, indispensable for the economic medium and long term future, in the sector of energy, territorial consolidation of 61 new municipalities, labour market, public administration, anti-informality and fiscal evasion, justice, employment, etc.

Total budget expenditure for 2016, are foreseen to amount to ALL 452.1 billion or 29.5% of GDP, (vis-à-vis ALL 456.4 billion foreseen in the Normative Act 2015⁶).

Personnel expenditures – Personnel expenditures by the end of the period 2016-2018 are foreseen to decrease at the level of 4.2% of GDP, from 5.2% of GDP in 2015 budget law. During this triennial period, and particularly for 2016, the public administration reform will focus on the continuous increase of the central administration's efficiency and performance. This will be achieved through restructuration of existing institutions. For 2016, the number of public employees will decrease to 81,350 people, reflecting the ultimate transfer of some functions from the central government towards the local government.

Interest expenditures – The estimation for interest expenditures has been based on the debt strategy of the Ministry of Finance and the levels foreseen for domestic and foreign financing of this debt. For the period 2016-2018 these expenditures are foreseen to keep the level of 2.9% of GDP, reflecting the firm Government's policy to continuously reduce the fiscal deficit and the public debt, over the medium and long term period.

Operational and maintenance expenditures – Operational and maintenance expenditures for the period 2016-2018 are foreseen to progressively decrease in real terms from 2.8% of GDP in the 2016 budget proposal, to 2.6% of GDP in 2018. However, in nominal terms, its level will increase from ALL 38.7 billion in 2016, to ALL 40.8 billion in 2018. This is a result of the increased support for road maintenance, farmers' subsidies, ICT, health and education.

Subsidy expenditures – The policy regarding the Government subsidies aims at decreasing the financial support for the state-owned enterprises (e.g. water supply, railways, etc.), while devoting a special attention to the newly introduced financial support scheme for the manufacturing industry, which aims at enhancing the existing workers' skills and providing the necessary basic skills for the apprentices. Although in real terms the level of subsidies shall remain constant at 0.1% of GDP, in nominal terms it will decrease at a level of ALL 1.6 billion for the whole period 2015-2017, reflecting the ultimate structural changes regarding the railways sh.a.

Expenditures for economic assistance and disability benefits – During the period 2016-2018, expenditures for economic assistance and disability benefits will remain constant at the level of ALL 20.5 billion, mainly as a result of the scheme's new legal and administrative improvements. The current legal and administrative improvements to the economic assistance scheme aim at targeting better the poor and disadvantaged, and by doing so, it aims at cleaning the scheme from those who are not eligible but have benefited so far. The forecast of other social payments is shown below:

- Unemployment benefits are foreseen to remain unchanged at ALL 1 billion for the whole period 2016-2018;

⁶ Budget 2015 included also ALL 20 billion arrears payments or 1.4percent of GDP, a process that is concluded in 2015, with no impact for 2016.

- Ex-prisoners compensation is also foreseen to remain ALL 2 billion, with a slight increase at ALL 2.1 billion in 2018;
- Starting from the 2016 annual budget, the foreseen fund to compensate the marginalized population, accompanying government policies mainly in the energy sector, shall be included respectively in the Fund of Social Insurance Institute and Ministry of Social Welfare and Youth budgets. This new budgeting procedure is done with the aim to reflect the abovementioned policy started in 2015, which will continue as part of other social benefits for the marginalized population.

Reserve fund of Council of Ministers and contingency fund – By the end of the period 2016-2018, its level will increase to 4.5 billion ALL, from ALL 3 billion in the 2016 budget proposal. These slightly increased levels are mostly due to the increase of the Contingency Fund, and fully in line with the projections to assure/ increase the “safety measures” for any unforeseen shortfall in the budget revenues. While in real terms, its level will remain around 0.2% of GDP as a period average.

Capital Expenditures – During the period 2016-2018 the level of capital expenditures will increase in nominal terms, transitioning from ALL 60.5 billion in 2016 budget proposal to ALL 65.8 billion in 2018. However, in real terms their level will decrease over this period, keeping an average of about 3.9% of GDP. We will still prioritize those projects which continue from previous years, as well as those defined as strategic for country’s economic and social development, in accordance with the Government Program and sector strategies.

Local budget expenditures for 2016 are projected at level ALL 48 billion or 3.1% of GDP. This category takes into consideration the growth of unconditional transfers for local government units, together with Regional Development Fund and the funding of new functions transferred to local government. Local budget expenditures are expected to be 19% higher than those of 2015. The increasing expenditures besides the increasing financing from the budget are affected from the growth of revenues from taxes and fees in the amount of 439 million ALL, compared with the budget normative act of 2015. The budget of 2016 is prepared using a new formula for the distribution of unconditional transfers to local government units. The new formula provides more equality, fairness and predictability for local government. Some of the elements of the formula are:

- The population data are the data harmonized between the civil registration and census.
- Municipal surface is replaced with the population density of the new municipalities
- Equalization is calculated on separate taxes, aiming to be as objective as possible in financing the units with low incomes and encouraging those that perform well in revenue collection.

The local budget of the year 2016 is the budget of the beginning of implementation of the new administrative and territorial reform.

Special funds expenditures – This item includes social insurance, health insurance and ex-owners compensation expenditures, which for the period 2016-2018 are foreseen to increase from ALL 152.6 billion in 2016 budget proposal, to ALL 171.4 billion in 2018. However, in real terms their level will slightly decrease, keeping an average of about 9.8% of GDP for the whole period. In more details:

- Social insurance expenditure will increase from ALL 113.3 billion in 2016 budget proposal, to ALL 127.4 billion in 2018;
- Health insurance expenditure will increase from ALL 36.2 billion in 2016 budget proposal, to ALL 39 billion in 2018;
- Ex-Owners compensation will progressively increase from ALL 4 billion in 2016 budget proposal, to ALL 5 billion in 2018 reflecting the new law for this purpose.

Public Debt

For the medium-term period, the main objective of the public debt management consists of improving the structure and increasing the sustainability of the domestic debt, by refinancing the

debt and by new borrowing mainly through long term instruments, conforming to the market development. A successful implementation of this strategy will lead to an increase in the average life of domestic debt and increase the ratio between long and short-term instruments, thus improving significantly the refinancing risk and the interest rate risk.

In this regard, progress has been made in the current year, and at the same time conditions have been created to continue this strategy during 2016. The issue of Policy Based Guarantee (PBG), as well as refinancing of the existing Eurobond during 2015, is integral part of this strategy. These instruments have: (a) contributed to an increase in the liquidity of the government's budget, (b) reduced significantly the pressure on the domestic market and (c) created appropriate conditions to improve the structure of domestic debt. Additionally, this practice may increase the stability of governmental instruments interest rates for the following period, increase credibility and reaffirm the Republic of Albania in the international markets. During November 2015 the Republic of Albania managed to refinance existing Eurobond in the international capital markets by issuing EUR 450 million new Eurobond with a favourable interest rate (5.75%). Although the market situation was characterized by a relatively high volatility, the Albanian Eurobond attracted the interest of investors, reflecting a positive confidence of investors toward Albania and its reform agenda.

Debt management also aims to maintain the balance between cost and risk by using different types of instruments in the domestic market and by taking advantage on the flexibility of the calendar. As regard debt holders for 2016, expectations are positive and a further diversification of debt portfolio is expected. Over the next year is expected a decline in the stock of debt held by major banks and a redistribution of the weight toward non-banking institutions and individuals. During 2016 we expect stabilization or a moderate increase in interest rates for financial instruments, taking into consideration the current historical low interest rates as well as the limitations of the banking system in order to maintain acceptable levels of exposure to sovereign debt and certain liquidity ratios. Higher level of growth is expected in the segment of short-term instruments (Treasury bills) as well as in the segment of variable rate instruments, the spread of which is subject to change in the rates of 12-month treasury bills. Also, the loan in foreign currency is expected to be more expensive, as the projections indicate a possible increase in the interest rate by the Federal Reserve at the end of 2015, which will be reflected in the re-price of external debt in 2016. For the above reasons and because of the increasing stock of debt, debt service in nominal terms over the next year is expected to be higher compared to the current year.

Regarding the external market, foreign borrowing will be based on the expected financing of existing projects, as well as on new projects for which the Government is committed to the creditors. Also, foreign funding is expected to be completed by budgetary support at the level of 14 billion ALL, according to the agreement for the repayment of arrears.

Local government debt it is expected to stay in the same level and there are not expected any new issues.

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

Standard methodologies and techniques were deployed to gauge cyclically adjusted fiscal balance in the case of Albania. However, due to data limitations their relatively low level of disaggregation and relatively short time span, the following analysis is prone to several caveats and limitations and therefore should be considered with caution.

Estimating potential GDP and output gap

The HP filtering technique was deployed to estimate a series of potential GDP. Applying the HP-filter directly on the actual level of GDP or its log-level in order to extract a series for the potential GDP, yielded some economically counterintuitive results related to the output gap (OG).

Specifically, we obtained a positive output gap for 2009, 2010 and 2011. Despite a restructuring process taking place in the economy since the hit from the global financial crisis (2009), which probably led to lower output potential, it seemed not plausible to experience positive output gaps during these years.

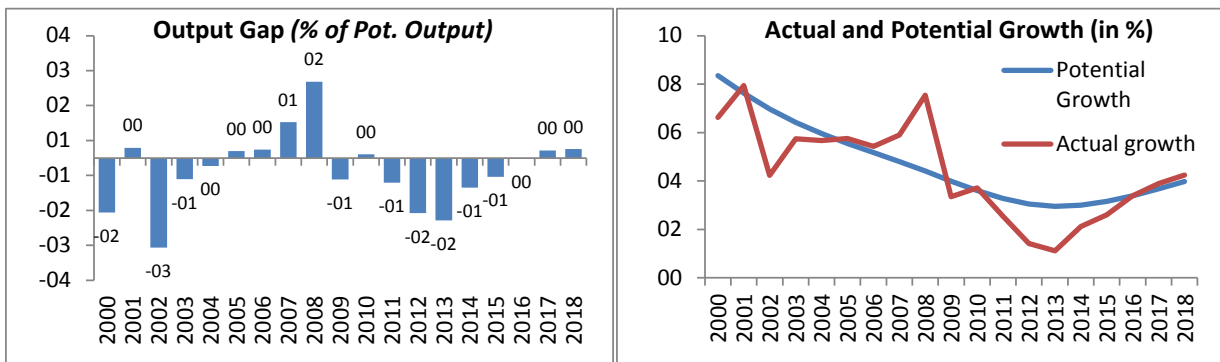
Therefore, an HP-filter was applied on the actual annual real growth by considering the most advocated values for the parameter $\lambda = 100; \lambda = 30; \lambda = 6.5$ lambda in the case of annual data, namely

The potential GDP growth was then derived as an average of the HP-filtered series based on those three different lambda parameters. Based on the obtained potential growth, the level of potential GDP was then derived and the output level is calculated accordingly. The projections of IMF WEO (October 2015) for 2019 and 2020 were utilized to address the end-point problem common with this filtering technique.

$$OG_t = \frac{GDP_{t,actual} - GDP_{t,potential}}{GDP_{t,potential}}$$

The output gap

is presented on the left side of figure below.



The results indicate that the actual output has been below potential for the 2000 – 2003 period and remained almost at its envisaged potential level during the 2004 – 2006 period. The economy started to operate above the potential in 2007, while considerably overheating in 2008. Since the hit of the global crises in 2009 the economy has been operating below its potential.

Estimating elasticities and budget sensitivity to output gap

After removing one-off items present in the fiscal indicators, the revenues' and expenditures' elasticities are estimated based on both the disaggregated (OECD 2005 approach) and aggregated approach (IMF 2010 approach). However, the final overall elasticities obtained from each approach were quite similar. More specifically, the overall revenue elasticity derived from specific revenue items' elasticities estimated through the disaggregated approach was 1.03, while the revenue elasticity estimated from the aggregated approach was 1.45.⁷ Total revenues were adjusted for cyclical effects by applying the average elasticity obtained from both approaches, namely $\varepsilon_{R,Y} = \text{average}(1.03, 1.45) = 1.24$.

Regarding the expenditure's elasticities, they also didn't statistically differ from zero. The regression analysis yielded expenditures elasticities 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

⁷ Due to lack of data and relatively short series, in the case of disaggregated approach some of the estimated elasticities / coefficients were not significant at conventional levels and several assumptions were imposed.

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:

$$\sigma_B \equiv r(\varepsilon_{R,Y} - 1) - g(\varepsilon_{G,Y} - 1) = 0.251(1.24 - 1) - 0.261(0 - 1) = 0.321$$

Where: $r = 0.251$ is the average ratio of total revenues to GDP (excluding one-offs) for the last five years (2010 - 2014); $g = 0.261$ is the average ratio of primary expenditures to GDP (excluding one-offs) for the last five years (2010 - 2014). 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 0.32 percentage points of potential GDP.

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

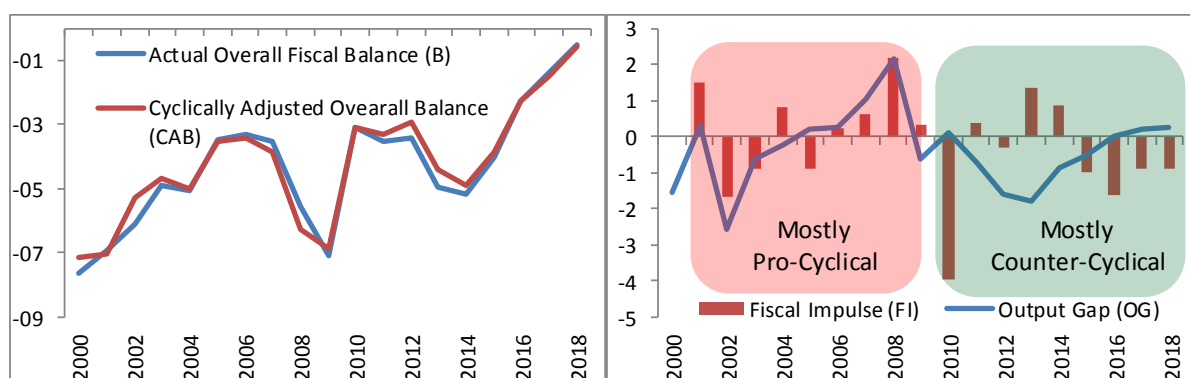
Based on estimated output gaps (OG) and the budget sensibility parameter (σ_B) the cyclical component of the primary fiscal balance (CPB) in terms of potential GDP is calculated as: $CBT_t = \sigma_B * OG_t$. Whereas, the automatic stabilizers are defined as the change in CPB in two consecutive years (AS), as: $AS_t = CPB_t - CPB_{t-1}$

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: $FI_t = CAB_t - CAB_{t-1}$

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. The obtained results are presented in the following table and graph.

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
2000	-1.6	-7.6	-2.0	-0.5	-1.5	5.7	-7.1	-	-	
2001	0.3	-6.9	-2.9	0.1	-3.0	4.0	-7.0	0.6	1.5	Pro-cyclical
2002	-2.6	-6.1	-2.1	-0.8	-1.3	4.0	-5.3	-0.9	-1.7	Pro-cyclical
2003	-0.6	-4.9	-0.6	-0.2	-0.4	4.3	-4.7	0.6	-0.9	Pro-cyclical
2004	-0.2	-5.1	-1.3	-0.1	-1.2	3.8	-5.0	0.1	0.8	Counter-cyc
2005	0.2	-3.5	-0.3	0.1	-0.3	3.2	-3.5	0.1	-0.9	Counter-cyc
2006	0.2	-3.3	-0.5	0.1	-0.6	2.8	-3.4	0.0	0.2	Neutral
2007	1.0	-3.5	-0.9	0.3	-1.2	2.6	-3.9	0.3	0.6	Pro-cyclical
2008	2.2	-5.6	-2.7	0.7	-3.4	2.9	-6.3	0.4	2.2	Pro-cyclical
2009	-0.6	-7.1	-3.9	-0.2	-3.7	3.2	-6.9	-0.9	0.3	Counter-cyc
2010	0.1	-3.1	0.3	0.0	0.3	3.4	-3.1	0.2	-4.0	Counter-cyc
2011	-0.7	-3.5	-0.4	-0.2	-0.1	3.2	-3.3	-0.3	0.4	Counter-cyc
2012	-1.6	-3.4	-0.3	-0.5	0.2	3.1	-2.9	-0.3	-0.3	Pro-cyclical
2013	-1.8	-5.0	-1.7	-0.6	-1.2	3.2	-4.4	-0.1	1.4	Counter-cyc
2014	-0.8	-5.2	-2.3	-0.3	-2.0	2.9	-4.9	0.3	0.9	Counter-cyc
2015	-0.5	-4.0	-1.2	-0.2	-1.1	2.8	-3.9	0.1	-1.0	Pro-cyclical
2016	0.0	-2.2	0.6	0.0	0.6	2.8	-2.2	0.2	-1.6	Counter-cyc
2017	0.2	-1.4	1.5	0.1	1.5	2.9	-1.5	0.1	-0.9	Counter-cyc
2018	0.3	-0.5	2.4	0.1	2.3	2.9	-0.6	0.0	-0.9	Counter-cyc



This simple empirical analysis shows that during the 2000 – 2008 period fiscal policy in Albania has been mostly pro-cyclical, relative to the dynamics of the economy, therefore amplifying its cyclical movements. The pro-cyclicality of fiscal policy has been particularly obvious in 2002 and 2008. As the performance of the economy sharply shifted from a positive output gap in 2001 to a considerably negative gap in 2002, the cyclically adjusted primary balance contracted significantly in 2002 relative to the previous year. The opposite happened in 2008 when fiscal impulse peaked to 2.2 percentage points of GDP while the economy was clearly overheating with a positive output gap of the same magnitude.

Since the hit of the global crises in 2009, the discretionary component of fiscal policy seems to have had mostly a counter-cyclical nature, therefore playing its due role of stabilizing the economy and mitigating the cyclical movements. In 2016 and forward, the fiscal policy is targeted to remain broadly counter-cyclical. The fiscal consolidation planned to take place in the outer years is well-fitted with the forecasted acceleration of the economy.

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

Debt stock development

Central Government Debt at the end of December 2015 is evaluated at ALL 1,040 billion or 72.02% of GDP, where domestic debt stands at the level of 38.16% of GDP and external debt at 33.85% of GDP.

Table: Stock of total debt, domestic and external

In million ALL	2010	2011	2012	2013	2014	Dec-2015
Total Debt Stock (I+II)	715,371	772,517	827,981	884,692	977,102	1,040,466
I. Domestic Debt stock	407,372	438,582	470,358	520,786	564,673	551,370
-Government	401,821	429,925	454,695	500,868	538,641	520,932
-Guaranteed	5,551	8,657	15,663	19,918	26,033	30,439
II. External Debt Stock	307,999	333,935	357,622	363,906	412,429	489,096
-Government	268,124	294,276	319,833	332,500	383,922	463,505
-Guaranteed	39,875	39,659	37,790	31,406	28,507	25,591
GDP	1,239,645	1,300,624	1,332,811	1,350,555	1,393,540	1,444,741
Total Debt Stock/GDP	57.71%	59.40%	62.12%	65.51%	70.12%	72.02%
Domestic Debt Stock/GDP	32.86%	33.72%	35.29%	38.56%	40.52%	38.16%

External Debt Stock/GDP	24.85%	25.67%	26.83%	26.94%	29.60%	33.85%
-------------------------	--------	--------	--------	--------	--------	--------

Source: Ministry of Finance (2015)

During 2015 the Ministry of Finance managed to cover the needs of Government for liquidity by issuing in the domestic market ALL 410.4 billion or in net terms ALL -17.4 billion. During 2015, taking advantage from the low level of interest rates in the domestic market and the decrease in the domestic financing was managed to increase the amount of long term instruments and to mature short term instruments, respectively with ALL 19.1 billion and ALL 36.8 billion. This strategy aimed to improve the domestic debt structure and lower the risks associated with the domestic debt portfolio.

However, despite the notable progress it is worth mentioning that the portfolio remains still exposed to the refinancing risk and the structure of the domestic debt requires further improvement.

Domestic Debt Portfolio

Table: Domestic Debt Stock by Instruments

Instruments	2010	2011	2012	2013	2014	Dec-15
Total Debt Stock	407,372	438,581	470,358	520,786	564,674	551,370
Treasury Bills	231,436	241,385	250,352	245,782	260,599	223,821
T.Bonds	170,385	188,539	204,343	255,086	278,042	297,111
Currency Revaluation	0	0	0	0	0	0
Direct Crediting	0	0	0	0	0	0
Guarantees	5,551	8,657	15,663	19,918	26,033	30,439
T.Bills %	56.81%	55.04%	53.23%	47.19%	46.15%	40.59%
T.Bonds %	41.83%	42.99%	43.44%	48.98%	49.24%	53.89%
Currency Revaluation %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Direct crediting %	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Guarantees %	1.36%	1.97%	3.33%	3.82%	4.61%	5.52%

Source: Ministry of Finance (2015)

During 2015 the ratio of short-term instruments has decreased from 46.15% at the end of 2014 at the level of 40.59% in December 2015. Meanwhile, the weight of long term instruments in the portfolio has been increased by 465 basis points. During this period, we noticed an increasing tendency toward long term instruments by making the structure of domestic debt more sustainable and less exposed to the refinancing risk.

Debt Holders

During 2015 the number of participants in the primary market for government securities has been increased by contributing in a better portfolio diversification. We observed a re-allocation between categories Banks, Non-Banks and Individuals. During 2015 the share of Banks portfolio decreased by 469 basis points (bp), weight which has been shifted toward Non-Banks and Individuals, respectively with 178 and 291 bp. On the other hand even within the same category (Non-Banks) we saw a change in weights, where the share held by Financial Institutions increased by 122 bp and the share held by Non-Financial Institutions declined by 9 bp.

Meanwhile, the individual's portfolio during 2015 increased by 291 bp, mainly due to the favourable interest rates offered by bonds compared to bank deposits.

Table: Debt Holders

Debt Holders	2010	2011	2012	2013	2014	Dec-15
I. Banks	84.71%	83.35%	79.36%	74.84%	72.80%	68.11%
-Bank of Albania (BoA)	15.41%	14.30%	12.48%	12.27%	11.26%	9.91%
-Raiffeisen Bank	34.90%	34.20%	29.43%	22.55%	17.16%	15.71%

-BKT	10.37%	11.57%	13.66%	13.95%	16.70%	15.06%
-Other Banks	24.03%	23.28%	23.79%	26.07%	27.68%	27.43%
II. Non-Banks	3.21%	3.73%	6.16%	12.66%	15.29%	17.07%
-Financial Institutions	1.16%	3.69%	4.58%	4.81%	5.81%	7.03%
-Prestige Fund	0.00%	0.00%	1.48%	7.80%	9.31%	9.95%
-Non Financial Institutions	2.05%	0.04%	0.10%	0.05%	0.17%	0.08%
III. Individuals	12.08%	12.92%	14.48%	12.50%	11.92%	14.83%

Source: Ministry of Finance (2015)

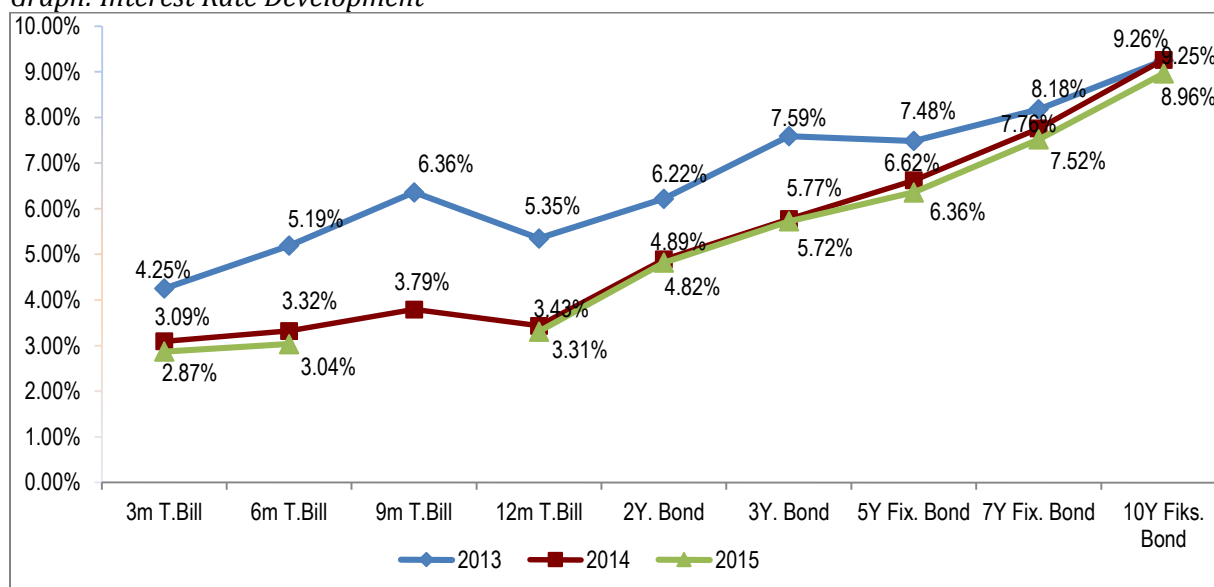
Interest rate development

During 2015 interest rates have continued to decline in all domestic market instruments.

Interest rates remain at low levels for the following reasons:

- Relatively high availability of liquidity in the banking system.
- Lack of alternative investments and limiting lending to the private sector from the banking system.
- Steady base interest rate (1.75%).
- Relatively low demand for net domestic borrowing by the government compared to the previous years.
- Increased demand from the category of individuals due to more favourable rates compared to deposits.

Graph: Interest Rate Development

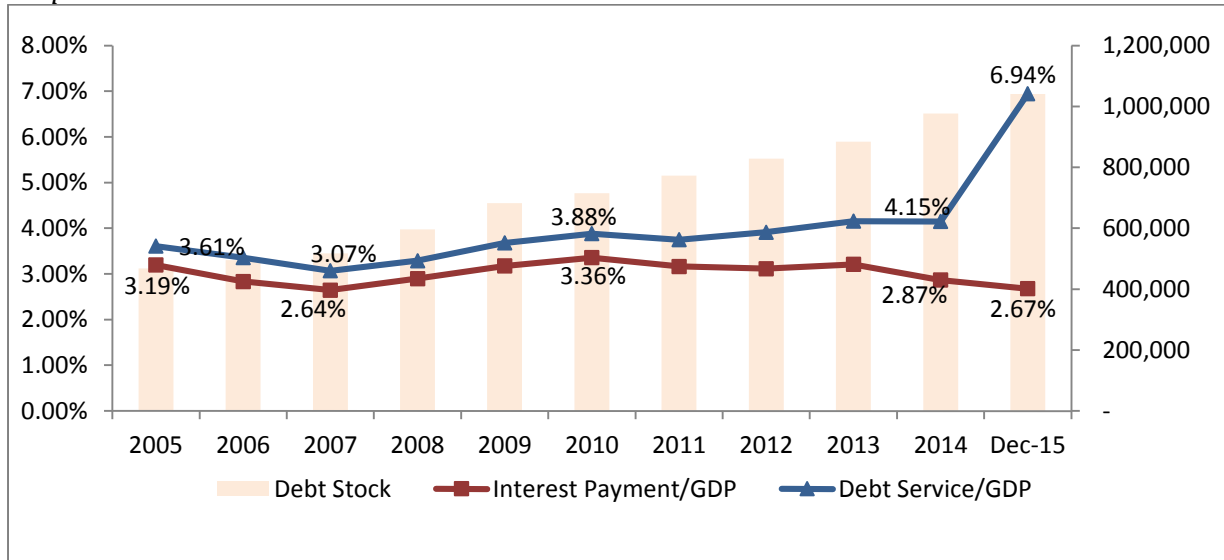


Source: Ministry of Finance (2015)

Debt service

For 2015 the debt service is estimated at 6.94% of GDP (2.67% of GDP is the interest and 4.27% of GDP are the principal payments of external debt). Debt Service to GDP ratio has increased by 280 bp compared to the same period a year ago. This increase is attributed mainly to the Eurobond repayment. As regards interest rate payments, it is noted a decline of 20 bp which is attributed to the continuous fall in the interest rates during 2014 and continuing throughout 2015.

Graph: Debt Service

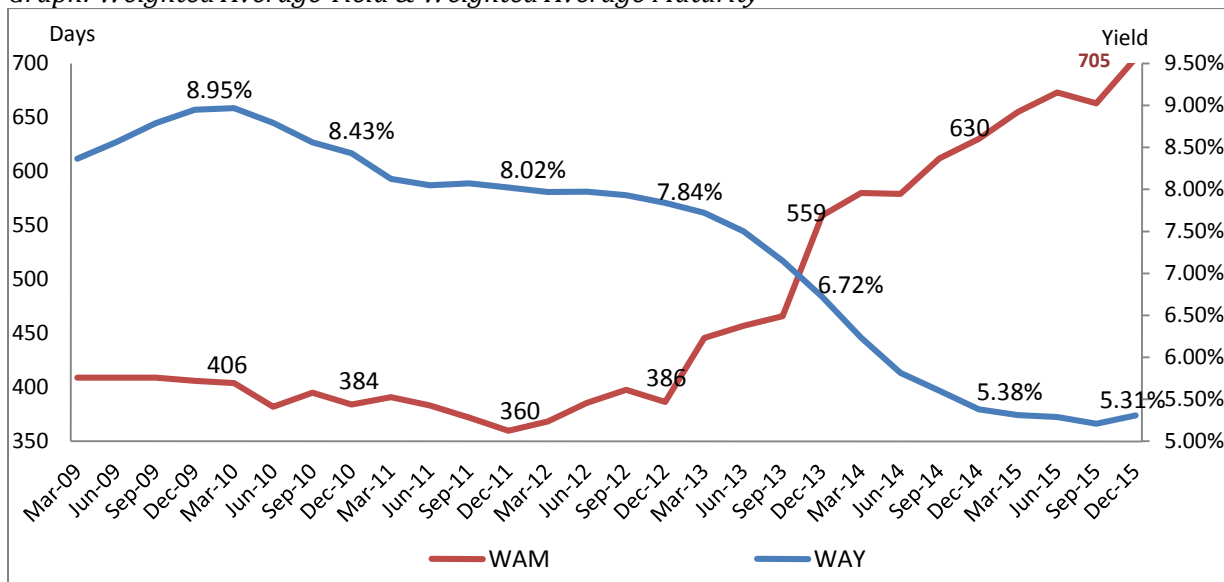


Source: Ministry of Finance (2015)

Risk indicators

The risk indicators showed positive trends during 2015 as a result of the issuance of long-term instruments and in particular as a result of the ten-year bond, which was issued four times during this year. The amount of issuance of this instrument during 2015 was about ALL 12.6 billion.

Graph: Weighted Average Yield & Weighted Average Maturity



Source: Ministry of Finance (2015)

The average maturity (WAM, average life of domestic debt portfolio) experienced significant improvement during this year, reaching the level of 705 days at the end of December compared with 630 days at the end of 2014. This increase is linked mainly to the increase in share of long-term instruments (seven-year and ten-year bonds). The weighted average yield (YMP, the average cost of domestic debt portfolio) also improved during 2015. This indicator decreased from 5.38% at the end of 2014 to 5.31% at the end of December 2015, as a result of the decline in the average cost of debt in the domestic market. Also the level of debt that needs to be re-fixed during a single year has improved from 72.74% at the end of 2014 to 67.69% at the end of December 2015.

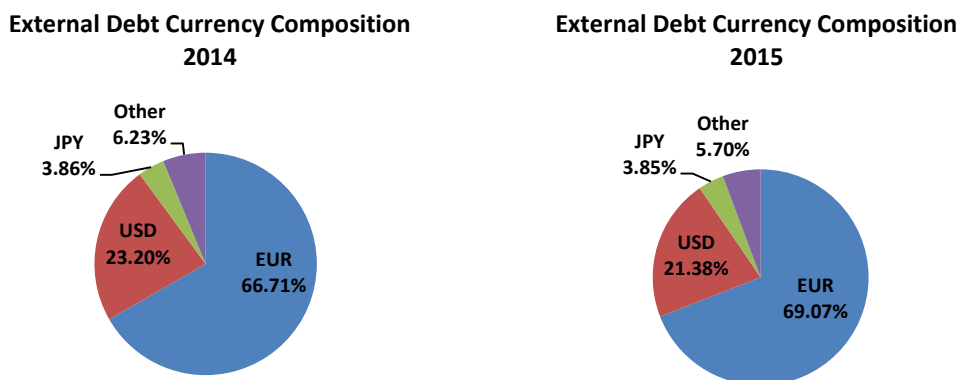
However, the portfolio continues to be sensitive to fluctuations in the interest rates, because the decline in interest rates is attributed to the temporary increase of liquidity by banking sector due the restrictions on crediting the private sector, and as well by the decline in the base interest rate by Bank of Albania as part of its monetary policy.

It is worth mentioning that the development of risk indicators has been positive recently but the sustainability in the long-term horizon is still a challenge for the domestic debt market of securities.

External debt

At the end of December 2015 external debt stood at the level of EUR 3.54 billion, of which EUR 3.36 billion corresponds to the Government Debt and the rest EUR 0.19 billion corresponds to the Guaranteed Debt. The external debt is composed of 3 main currencies EUR, USD and YEN. The largest share is held by in EUR (69.07% of external debt portfolio). Compared to the previous year, EUR increased in its weight by about 237 bp, mainly because of the new Eurobond issued and PBG in the total amount of 700 million EUR. USD and YEN decreased respectively by 182 and 1 bp. The large share of EUR denominated debt indicates a relatively high foreign exchange risk, which for sure in the future should be mitigated through portfolio diversification.

Graph: External Debt Currency Composition



Disbursement

During 2015 EUR 965 million were disbursed, or EUR 580 million more than then the same period of the previous year. The increase in disbursements compared to the previous year is attributed mainly to Eurobond issuing and PBG in a total of EUR 700 million. Budgetary support

and project financing disbursements are relatively lower compared to the previous year, respectively EUR 115 million and EUR 5 million.

Table: External Debt Disbursements

	Dec-14		Dec-15	
	Amount	% of Total	Amount	% of Total
Total Disbursements	385	100.00%	965	100.00%
(i) Budgetary Support	219	56.81%	104	10.78%
(ii) PBG	0	0.00%	250	25.91%
(iii) Eurobond	0	0.00%	450	46.63%
(iv) Project Financing	166	43.19%	161	16.68%

Source: Ministry of Finance (2015)

The sectors of the economy that are characterized by the highest rate of disbursement are: Transport (31.1%), Energy (28.1%), and Water Supply and Sewerage (19.7%).

As a result of the relatively high amount of undisbursed debt (EUR 1.3 billion) the line ministries will need to make a greater commitment to new projects and to increase the efficiency of the existing ones.

Market Risks

We expect a moderate increase in the interest rates of domestic financial instruments during 2016. Higher growth is expected in the segment of short-term instruments, and also in the segment of variable rate instruments because their spread is subject to the 1 year Treasury bill yield movement.

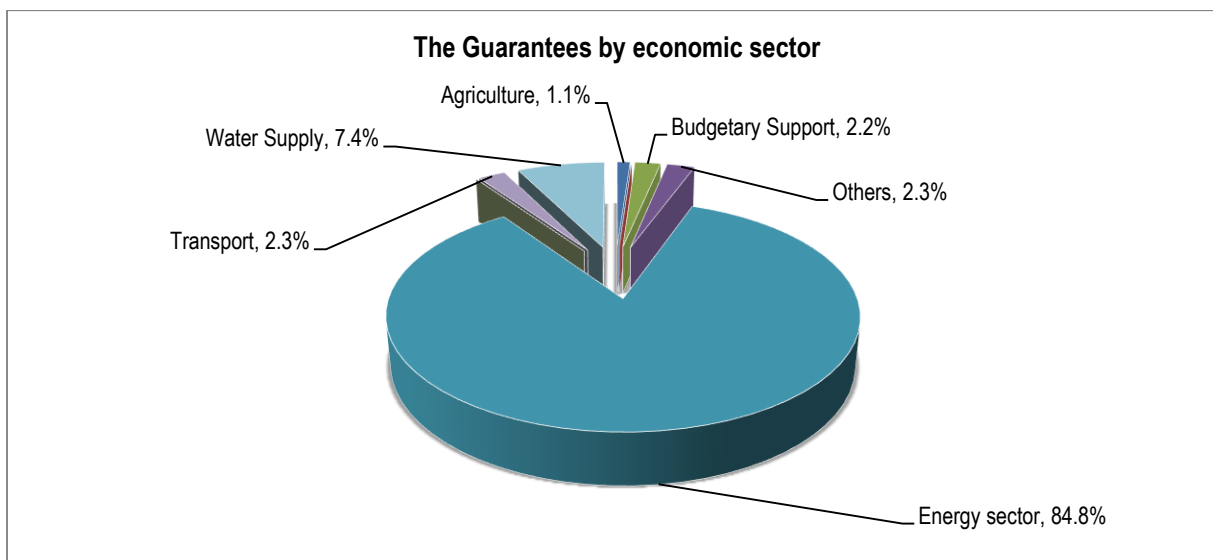
Foreign currency borrowing is expected to be more expensive, as the projections indicate a possible increase in the base interest rate by the Federal Reserve. This will be reflected in the external debt repricing during 2016.

In the long run the interest rates can change drastically. Hence, in order to minimize the interest rate risk, debt management will tend to orient debt mostly toward fixed interest rate instruments and toward instruments that offer relatively low interest rates, without infringing the objective of increasing the average maturity of debt.

As regards to foreign exchange rate risk, as mentioned above, external debt portfolio is vulnerable to fluctuations in the exchange rates, and especially against the EUR currency fluctuations. The depreciation of the national currency against the Euro currency and other currencies that occupy significant weight in the portfolio of external debt can influence the budget by increasing debt service costs and also by increasing the level of debt. In order to manage this kind of risk, debt management has as medium term objective to maintain the level of external debt to a level not higher than 50%.

Contingent liabilities

As of December 31, 2015, the Outstanding Guaranteed Debt amount was ALL 56.030 million, or 3.89% of GDP. Guarantees in the domestic market represent 54.32% of the total guarantees stock, or ALL 30,439 million, while the guarantees provided by the foreign creditors represent 45.67% of the stock of guarantees, or ALL 25,591 million. The composition of Public Guaranteed Debt by economic sector is: 84.8% for the energy sector, 7.4% for water supply, and 2.3% for transport.



Source: Ministry of Finance (2015)

Public debt guarantees in the domestic market are issued for the energy sector. The borrower is KESH sh.a. The creditors are four banks, of which RZB is the main creditor with 70.02, followed by ISP Bank with 17.08%, BKT with 10.18% and *Societe Generale* with 2.71%.

The external public Debt Guarantees cover different sectors, in which the energy sector is the main one with 65.93% of the external guarantees, followed by water supply with 16.1% of the external guarantees stock, transportation with 4.99%, etc. The main foreign creditors are: EIB with 24.4% of the external guarantees, Artigiancassa (Italy) with 18.1%, EBRD with 15.8%, KfW with 13.8%, etc.

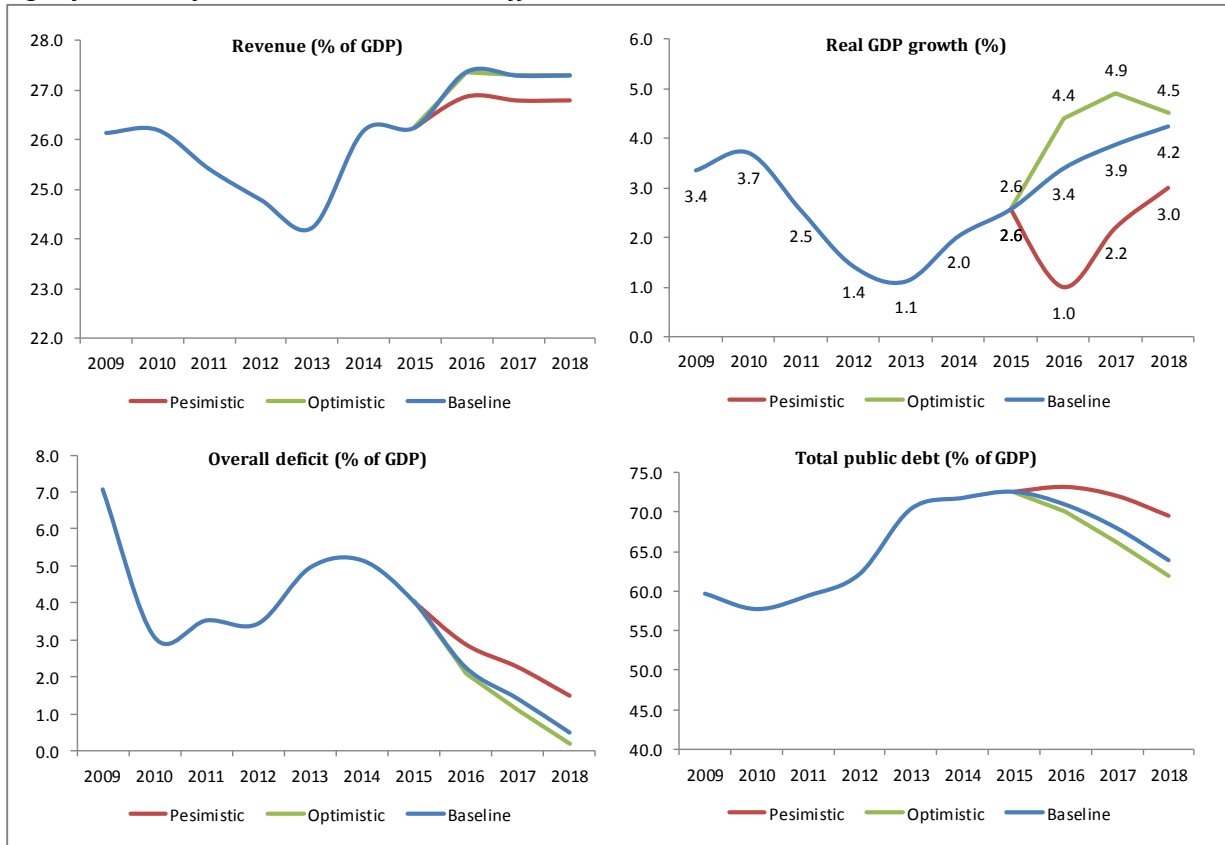
3.6. Sensitivity analysis and comparison with the previous program

In the case of the "pessimistic" macroeconomic scenario, which assumes a significantly lower growth than the projected baseline during each year, the respective fiscal framework will be based on lower tax elasticity than the baseline. This assumption reflects the rationale that generally a significantly lower economic growth level is expected to lead at lower tax collection efficiency for a number of the major tax components. While in case of the "optimistic" macroeconomic scenario, the revenue to GDP ratio is assumed at the same level as in the baseline scenario.

The overall consolidating fiscal policy is planned to be preserved in each macroeconomic scenario. However, the quantitative target of annual fiscal deficit differs slightly in each scenario reflecting a countercyclical adjustment toward different assumed dynamics of the economic cycle. That is in line with the actual IMF program provisions. More specifically, 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. The amount of loosening (tightening) of the nominal deficit target in the "pessimistic" ("optimistic") scenario equals half of the deviation of total revenues in each of the alternative scenarios versus the baseline. Public debt is expected to be reduced in each scenario. In the case of "optimistic" scenario it curbs down quicker than in the baseline.

The main items of the expenditures which are planned to absorb most of the fiscal effects in the case of each alternative scenarios are "contingency for safeguarding deficit target", and "capital expenditures with domestic financing". The higher needs for deficit financing in the case of "pessimistic" scenario are expected to be covered by higher "budgetary support from the IFIs", which is part of the foreign borrowing. However, we assess that the additional financing need in this case could be normally raised from the domestic market as well. The fiscal implications of the alternative macro-scenarios are presented in the following table and graphs.

Fig: Dynamics of main indicators under different scenarios



Source: Ministry of Finance

Tab: Main fiscal indicators in each scenario

	2009	2010	2011	2012	2013	2014	2015 Est.	2016 Proj.	2017 Proj.	2018 Proj.
Total Revenue (in billion Lek)										
Baseline	299.0	324.7	330.5	330.4	327.2	366.7	379.2	418.9	446.8	480.4
Pesimistic								401.7	421.6	447.9
Optimistic								423.0	455.6	491.1
Total expenditures (in billion Lek)										
Baseline from which:	379.9	362.8	376.3	376.2	394.1	438.8	437.5	453.3	469.8	489.0
<i>(% of GDP)</i>	33.2%	29.3%	28.9%	28.2%	29.2%	31.3%	30.3%	29.6%	28.7%	27.8%
Current expenditures	283.9	300.9	305.6	312.6	328.6	341.3	345.1	376.3	390.5	408.7
<i>(% of GDP)</i>	24.8%	24.3%	23.5%	23.5%	24.3%	24.4%	23.9%	24.6%	23.9%	23.2%
Capital expenditures from which:	95.9	67.5	69.1	61.7	65.5	60.5	69.9	69.0	70.3	70.8
<i>(% of GDP)</i>	8.4%	5.4%	5.3%	4.6%	4.8%	4.3%	4.8%	4.5%	4.3%	4.0%
Domestic financing	75.6	46.6	41.1	27.4	36.7	33.8	37.1	31.6	33.3	33.1
Foreign financing	20.3	20.9	28.0	34.3	28.8	26.8	25.2	28.4	31.0	32.7
Reg. Dev. Fund Domestic CapEx	0.0	0.0	0.0	0.0	0.0	0.0	7.7	9.0	6.0	5.0
Contingency for deficit protection	0.0	0.0	0.0	0.0	0.0	0.0	0.0	2.0	3.0	3.0
Pesimistic from which:								444.8	457.1	472.7
<i>(% of GDP)</i>								29.7%	29.1%	28.3%
Current expenditures								376.3	390.5	408.7
<i>(% of GDP)</i>								25.2%	24.8%	24.5%
Capital expenditures from which:								62.4	60.7	59.2
<i>(% of GDP)</i>								4.2%	3.9%	3.5%
Domestic financing								25.1	23.6	21.5
Foreign financing								28.4	31.0	32.7
Reg. Dev. Fund Domestic CapEx								9.0	6.0	5.0
Contingency for deficit protection								0.0	0.0	0.0
Optimistic from which:								455.4	474.2	494.4
<i>(% of GDP)</i>								29.5%	28.4%	27.5%
Current expenditures								376.3	390.5	408.7
<i>(% of GDP)</i>								24.4%	23.4%	22.7%
Capital expenditures from which:								71.0	74.7	76.1
<i>(% of GDP)</i>										
Domestic financing								33.7	37.7	38.4
Contingency for domestic CapEx								0.0	0.0	0.0
Foreign financing								28.4	31.0	32.7
Reg. Dev. Fund Domestic CapEx								9.0	6.0	5.0
Contingency for deficit protection								2.0	3.0	3.0
Overall deficit (% of GDP)										
Baseline	-7.1	-3.1	-3.5	-3.4	-5.0	-5.2	-4.0	-2.2	-1.4	-0.5
Pesimistic								-2.9	-2.3	-1.5
Optimistic								-2.1	-1.1	-0.2
Financing of overall deficit (in billion Lek)										
Baseline from which:	80.9	38.0	45.8	45.9	66.9	72.1	58.2	34.4	23.0	8.6
Net domestic borrowing	43.3	11.3	28.2	24.8	46.3	38.2	-17.4	21.0	30.0	19.2
Net foreign borrowing from which:	10.2	24.9	19.8	19.4	10.8	29.9	68.8	13.5	-7.0	-10.6
Budgetary support from IFIs	0.0	0.0	0.0	0.0	0.0	30.5	14.0	14.0	0.0	0.0
Other foreign borrowing	9.6	26.6	17.6	21.6	9.6	1.3	54.7	-0.5	-7.0	-10.6
Pesimistic from which:								43.0	35.6	24.9
Net domestic borrowing								21.0	42.6	35.4
Net foreign borrowing from which:								22.0	-7.0	-10.6
Budgetary support from IFIs								22.6	0.0	0.0
Other foreign borrowing								-0.5	-7.0	-10.6
Optimistic from which:								32.4	18.6	3.3
Net domestic borrowing								18.9	25.6	13.8
Net foreign borrowing from which:								13.5	-7.0	-10.6
Budgetary support from IFIs								14.0	0.0	0.0
Other foreign borrowing								-0.5	-7.0	-10.6
Total public debt (% of GDP)										
Baseline	59.7	57.7	59.4	62.1	70.4	71.8	72.5	70.9	67.9	63.9
Pesimistic								73.2	72.0	69.5
Optimistic								70.1	66.2	61.8

Source: Ministry of Finance

Other fiscal risks

We are addressing emerging risks to the baseline fiscal framework. More specifically:

- *Local government reform:* Following local elections in June 2015, 61 local government units replaced the previous 373 communes and municipalities. Audits are currently taking stock of the finances of the new consolidated units. We plan to expand the dedicated unit at MoF to continuously monitor the finances of local governments. The unit will start preparing annual surveys of local government arrears, starting with 2016. With help from USAID and the World Bank, we plan to review the legal framework on local public finance.
- *Property compensation claims:* The European Court of Human Rights (ECHR) in Strasbourg is processing cases brought against the Albanian government by property owners expropriated under the communist regime. A law has been approved in December 2015 that provides for compensating all property owners at current market values (based on historical land classification) over a period of 10 years with resources from the budget and state-owned land. In our medium term budget we have already accommodated a space of ALL 5 billion each year for the property compensation scheme.
- *Arrears clearance:* The process of clearing the pre-2014 stock of arrears is now essentially complete, and we are reinforcing public financial management to prevent the accumulation of new arrears. The small amounts of outstanding pre-2014 arrears are on pending court cases, and will be paid directly by budgetary institutions out of their allocations. Now that procurement delays for the server upgrade have finally been resolved, we plan to extend our treasury IT system (AGFIS) to 15 budget institutions (accounting for 60 percent of the budget) and one local government by end-March 2016. We are also expanding our quarterly survey of new arrears to include the ministries of urban development, culture, and the environment, as well as the Office of the Prime Minister (including the Regional Development Fund).
- *Public Private Partnerships (PPPs):* To limit fiscal risks from PPPs, we will ensure that PPPs follow international best practice and that their related fiscal costs and contingent liabilities are transparently accounted for in the fiscal accounts and debt statistics. We will adopt one of the leading international accounting standards (GFSM, ESA 2010, or IPSAS). In 2016, we will launch a public register of all active PPP projects and will also publish summaries of all PPP contracts as well as the contracts themselves, excluding confidential or protected information, to ensure transparency for the commitments made by the government. We will also accelerate the establishment of a MoF unit that will evaluate fiscal risks, propose measures to mitigate them, and provide risks assessments to be included in budget document submissions to Parliament. By end-2016, this unit will assess the risk stemming from all active PPP and concession contracts and from local government arrears, and will consider whether to quantify these risks in our fiscal accounts. Technical assistance from the Fund and other international partners will continue to help assess our current legal and regulatory framework and suggest recommendations for improvement.

3.7. Sustainability of public finances

The implementation of the Pension Reform drafted and approved in 2014, assessed and supported by the World Bank, started on 1 January 2015. During 2015, there have been applied all laws and regulations relating this reform. By the end of 2015, the results are the following:

- Reduction of expenditures by extending the contributory principle. Redefining the pension formula, harmonized with a studied and realistic scheme of the contributory wage reassessment as well as deepening the contributory principle highlight the encouragement of the economically active people to get insured as well as the reduction of the total social insurance expenditures to the limits reflected in the mid-term budget indicators i.e. 2014 – 2020, respectively: 2015 - 2,241 million less; 2016 - 4,025 million less; 2017 – 4,321 million less; and 2018 - 3,977 million less.
- The increase of the number of contributors due to the improved pension formula, which establishes a stronger link between the pension amount and the contributions paid, as

well as the fight against informality. The number of contributors increased from 654 thousand at the end of 2014 to about 671 thousand at the end of 2015.

- There has been amended the law on the state supplementary insurance in order to ensure a more adequate link between contributions and benefits; there has been increased the supplementary contribution rate for all categories from 2%, 3%, 4% to respectively 3%, 4%, 5%; also, the retirement age for the high functionaries (MPs, ministers) has been increased from 55 to 60 years of age. Pension indexation will be done the same way as for all other pensions; it will not anymore be a recalculation following the reference wage change.
- There has been amended the supplementary insurance law for the people with academic titles relating i) the contribution rate which has been increased from 3.5% to 5% for those employed in the public educational and research institutions; and 7% for those employed in the private universities; and ii) the link between the supplementary benefit and the reference wage for the title in the public universities. These changes aim to increase the financial sustainability of the scheme.

Based on the pension reform results, a mid-term program with the following overall and specific objectives has been designed:

- Ensure for the country's population the utmost coverage with the mandatory social insurance elements and maintain such elements to adequate levels.
- Implement the pension reform and increase the SII efficiency in terms of managing the compulsory, supplementary and programme social insurance funds; improve the social insurance scheme management, especially the contribution collection, as well as guarantee the fairest distribution of contributions in the form of benefits.
- Continue to work for the administrative consolidation of the SII, which is a modern institution and capable to be integrated and implement the EU standards.
- Put much more focus to the insured persons and improve the services for them; in this context, respond to the applications made not later than 30 -35 days from the very application date.
- Collection of farmers' contributions and voluntary insurance contributions as well as efficient management of temporarily free funds and the reserve fund.

Improve the infrastructure, continue the work on archiving all the social insurance period documentation and further digitize such documentation.

3.8. Institutional features

Budget planning, execution and control

For the first time ever, the 2015 annual budget law included also an estimation of budgetary ceilings on program basis for the period 2016-2017. This new procedure, which is going to continue as well in the 2016 budget proposal and further, not only consolidates the medium term budgeting process, but also disciplines the forecast of contractual obligations, which extend their financial effects beyond a budget year. Doing so, each spending unit is forced to plan multi-year contracts at the level allowed by the budget ceiling defined for the next three years, in the annual budget law. To guarantee the full respect and control for these limits, the Government's Financial Information System (GFIS) has been modified and foreseen to be fully implemented during the first half of year 2016. The final goal is to eliminate every possibility for the creation and accumulation of new arrears, not covered by the respective budgetary funds.

During 2016, in parallel with the accurate and rigorous monitoring and reporting of performance indicators specified in the MTBP 2016-2018, we are aiming to further improve the selection quality of these indicators, in the frame of MTBP 2017-2019 preparation process.

4. STRUCTURAL REFORM PRIORITIES IN 2016-2018

4.1. Identification of key obstacles to growth and competitiveness

The restoration of medium-term macro-fiscal balance is critical to the country's growth and to boosting the competitiveness of the economy. The severe macroeconomic imbalances that resulted by the earlier domestic demand-fueled remittances-financed growth model - high public debt, structural fiscal deficits, public sector arrears and large nonperforming loans - have to be addressed in order to reignite growth. Fiscal consolidation, which is under way, needs to be supported by deep structural reforms aimed at reducing explicit and implicit contingent liabilities (such as in the energy sector, the pension system, and property restitution and compensation for formerly expropriated land).

In the energy sector, continuous efforts are required to maintain the positive trend witnessed as a result of the undertaken reform measures. ***Reduction of losses, improvement of collection and continuing the process of market liberalization as per EU guidelines, will attract investment and reduce the fiscal exposure of the government.*** Continues work is also needed for the development of regional connectivity under the connectivity agenda, in both energy and transport. ***Development of trans-European networks, in line with the infrastructure investment priorities, including broadband connectivity, contributes to growth and employment and strengthens the internal market.***

Regarding business environment, despite recent progress, improvements are necessary to address the institutional and regulatory barriers faced by entrepreneurs. ***Reducing the high level of complexity in rules, procedures and reporting guidelines, and in particular improving their predictability and transparency, are crucial to business development, enabling long-term investment decisions and thus positively affecting growth.*** Coupled with a strong and transparent investment policy framework, an improved institutional and regulatory environment will help spur local business development, attract foreign investors, and harness spill overs from FDI, which are essential elements to achieving the country's goal of improving competitiveness and productivity.

Further efforts are also needed to enhance the facilitation of trade across borders. Although the trade environment has undergone significant improvement in recent years, further simplification and shortening of procedures and documentations and an overall reduction in the economic distance to markets is crucial to the global integration of Albania.

The labour market situation necessitates a broader inclusion of social and gender groups as well as the development of programs in support of vocational education training. ***Creating new employment opportunities and reducing the mismatch between skills demand and supply, will not only facilitate the integration of marginalised social groups, but will also help boost economic growth and increase competitiveness of the country.***

4.2. Structural reform priorities by area

4.2.1. PUBLIC FINANCE MANAGEMENT

Public Finance Management Strategy and Internal Control Reforms

In December 2014, Council of Ministers approved the "Public Finance Management (PFM) Strategy, 2014 – 2020", which reflects the commitment of the Albanian Government towards its citizens in implementing several important reforms for a sound public finance management system. The implementation of the activities of this comprehensive strategy, will significantly improve the management of public resources that will result in better services to the citizens and at the same time will improve the economic development of the country. Establishing and maintaining the macroeconomic stability has been and remains a top priority of this government,

which will affect the unused economic resources of our country. This strategy aims to establish mechanisms that will strengthen the overall fiscal framework as well as to the medium term budget programming.

It is well known that the violation of fiscal discipline led to the creation of arrears in recent years. Although preventive measures have already been taken as part of the Arrears Clearance and Prevention Strategy, adopted in 2014, in the PFM strategy other important measures are planned related to commitment controls. Multi-year commitments ceilings for investment projects and other long-term contractual arrangements are introduced in the medium-term budget program 2016-2018 which will be approved by Parliament. Several legislative measures are foreseen to ensure a sustainable fiscal framework. Part of the PFM strategy is also the reforms on strengthening tax and customs administration, in order to increase their efficiency in revenue collection and fight against evasion and informality. Integrity, competence and devotion of public servants, are key elements for the successful implementation of these reforms. Accordingly, the capacity building of public servants is an important focus of the strategy. These comprehensive reforms are being implemented in close cooperation with other institutions, such as the Ministry of Economic Development, Tourism, Trade and Entrepreneurship, Minister of State for Local Affairs, The Supreme Audit Institution, Public Administration Department, INSTAT, etc. An important priority of the PFM strategy is also the reform on strengthening the internal control systems. The aim of this reform is the overall improvement and strengthening of the systems of internal control and financial reporting of central and local government institutions. These reforms are based on international standards and best practices and aim to increase the effectiveness and efficiency of the public sector. As part of these reforms is the support by modern information and technology systems. Among the reforms to be mentioned in the field of financial management and control, is the revised law no.10296/2010 "On Financial Management and Control" in 2015, with the aim of addressing the some of the shortcomings identified during its implementation and the compliance with the international standards and best practice in this field. The revised law will be followed by a number of improved by-legal acts that will assist public entities in implementing the financial management and control requirements.

In the framework of strengthening the internal control systems, the Ministry of Finance is assisting the budget institutions in the development of risk management practices, as one of the important links in the process of budget planning. Furthermore, budgetary institutions are assisted in the practical establishment of the instruments of internal control such as: risk registers, lists and manuals of book of the processes, and drafting the audit trails. Another important element is the construction of an instrument for financial reports, which will facilitate analysis and reporting of income and expenditures from the budgetary units. In this context, are provided and will continue to be provided trainings in the field of Public Finance Management in cooperation with the School of Public Administration to improve the professional capacity and managerial staff of budgetary institutions.

From the Ministry of Finance, a particular attention has been paid to the professional growth of internal auditors employed in the public sector. As it is known from international standards, internal audit plays a key role in the assessment of internal control systems, identifying shortcomings in these systems and providing recommendations for addressing to the directors. In this context, as in 2014 and during 2015, have been trained all internal auditors, about topics that serve for an effective internal audit activity. Also, in 2016 it is planned the improvement of the process of the national certification of auditors and to accomplish this, the Ministry of Finance is assisted by SIGMA. In addition to all of the certified auditors and employees, more specific trainings, on the assessment of internal control systems will continue to be provided.

Meanwhile, to further enhance the effectiveness of audit activities and full compliance with relevant international standards, the relevant legal basis has been changed (law no.114/2015 "On internal audit in the public sector") and a series of sub-legal acts that regulate this activity are in the process of upgrading.

All these steps taken in the field of internal control, will directly affect the good organization of public institutions and at the same time in using the budget expenditures with economy, effectiveness and efficiency.

Treasury system

The Treasury functionality of accounting and producing timely and reliable financial statements (balance sheets, GFS-IMF and EDP-EUROSTAT) in according to international standards are essential to fiscal transparency, accountability and most other areas of PFM. The effective implementation of accounting and reporting standards are very much depend on supporting IT systems. Albanian Government Financial Information System-AGFIS is dealing with budget execution and financial reporting. It's needed the interfaces of AGFIS with other systems (Tax, Customs and Debt Administration, Department of Public Administration and Public Procurement Agency). There is a lack of tools (software) to work out the daily liquidity forecasting's information by stakeholders (line ministries, tax and customs administration, debt department, banking system). It's needed the enhancement of the cash flow forecasting by Data Warehouse management. Web Portal, which will be implemented under Albanian Financial Management Information System - AFMIS project, will serves as a tool for accessing the AGFIS and other systems by all budgetary institutions in order to perform their daily operational work for budget execution and financial reporting respecting all internal financial control rules, which are in place in Albania in regard of the public finance. Regarding to reporting of the budget execution transactions of foreign financing funds in real time, it's needed to channel external funds through TSA and AGFIS/AFMIS, which is depended by willingness of donors and data exchange with National Fund/CFCU system (approach channelling of donor funds on a pilot basis starting with IPA funds).

With the donors' support, during 2016 we will carry over with the implementation of design and tendering procedures, regarding the new AFMIS, which is going to integrate all the existing systems that support budget planning and implementation. The full operation of this integrated system will enable the sensitive improvement of the budget planning and execution on program and performance basis. In this context, following the implementation of the Public Finance Management Strategy 2014-2020, the financial year 2016 shall assure:

- The continuous use expansion of the GFIS system, directly by the budget institutions. For this purpose, it is foreseen that eight more budget institutions will receive the right to use it, from only seven of them currently using it.
- The accomplishment of the full integration between GFIS and the electronic system used by Public Procurement Agency (PPA), with the aim to enable the automatic control of available budgetary funds during their tendering procedures by budget institutions, which directly operate in GFIS for their budget execution.

In regard of PFM Strategy 2014-2020, Pillar III – Efficient Execution of the Budget, Expenditure Control component, there has been delays on the activity of gradually make AGFIS (Albanian Government Financial Information System) available to all major budget entities for performing their budget execution and financial reporting. During the third quarter of 2015 it was planned to give direct access into AGFIS to other 10 BI's. Due to the delay of AGFIS Hard Ware upgrade and based on the bad performance of existing AGFIS Hard Ware, on 1st of July 2015, it was decided to give direct access to only 2 BI's (Ministry of Agriculture and Rural Development Agency) and implementing live some of new functional AGFIS enhancements to strengthen the internal financial control and reporting. The rest of 8 BI's (including one Local Government Unit_Tirana Municipality) are going to have direct access into AGFIS, during April-May 2016, immediately after the AGFIS Hard Ware upgrade, which already has started and is foreseen to be successfully finished in the end of February 2016. Actually, there are 7 BI's that have direct access into AGFIS.

In regard of PFM Strategy 2014-2020, Pillar II- Well integrated and efficient planning and budgeting of public expenditures, Multi-year commitment control component, there has been

delays on the activity of introducing multi-year commitment control for multi-year investment projects. During the third quarter of 2015 it has been planned to introduce multi-year commitment control for multi-year investment projects into AGFIS. The functional term of references and new functional enhancements are already successfully tested in the testing environment of AGFIS since December 2014, but due to bad performance of AGFIS HW and delays in their upgrade project this activity is postpone to be live implemented into AGFIS during April-May 2016.

Other activities which are not directly linked with PFM Strategy, but will help on successfully completing activities related to it. Due to the fact that, many PFM Strategy activities are directly related to the AGFIS integration/enhancements and some of PFM Strategy activities are already in delay because of AGFIS technical performance issues (HW upgrade), during August- September 2015 Ministry of Finance did audit/risk assessments, conducted by outside experts and financed by the SETS Project (Support on the Extension of the Treasury System), to assess the MoF's exposure to risks emanating from external and internal environment, and affecting processes and operations in the Treasury and IT Departments. These assessments will complement the MoF's internal audit and financial control functions. By helping assess specific operational risks, they will add a new perspective to the internal audit discussions about the risk identification, prevention and mitigation. Also, by promoting exchange of best practices, such assessments will help better coordinate complex risk responses across a range of business areas and functions.

4.2.2. INFRASTRUCTURE

1. State of play and key obstacles to competitiveness

Albania's power generation is entirely reliant on hydro resources, whose historical unpredictability has translated into output volatility. However, only 35% of Albania's hydropower potential is currently used. In order to reduce recurrent energy shortages due to fluctuations in rainfall, the use of alternative energy sources such as solar, wind and gas needs to be considered. Trans-Adriatic Pipeline (TAP) project is a strategic initiative for linking Albania to the European gas network and hence for improving its energy security. GoA fully supports the construction of Trans Adriatic Pipeline (TAP Project). These will not only boost the efficiency and quality of energy supply but also bring energy reliability in the day-to-day operation of businesses and households.

Historically, the sector has suffered significant losses in electricity distribution, leading to annual electricity imports of €120 million to €160 million to cover these losses, thus making the distribution entity poorly performing. Reduction of losses, improvement of collection will reduce the fiscal exposure of the government. On the other hand, market liberalization model and the implementation of appropriate tariff levels closer to cost recovery will attract private investment Economic growth which in turn brings in foreign investments in the country necessitates the development and upgrading of adequate transport infrastructure, particularly but not exclusively road and maritime. Import and export of goods is done predominantly via road and maritime transport. Currently the Port of Durres handles the bulk of imported and exported goods which then are distributed through the national road infrastructure. The Government of Albania has prioritised investments in transport, road, maritime, railroad and air however, this ERP will focus on reforms in the road and maritime transport infrastructure.

Enhancing interconnectivity in transport and energy, in line with the Berlin Process, is a key priority of the GoA's agenda. Albania together with all the Western Balkans countries has agreed to a list of investment projects both in energy and transport, which include power interconnectors and reinforcement to the region's electricity transmission system routes, construction of additional highways that will connect various cities across the Western Balkans. The National Investment Council (NIC) has approved in December 2015 the National Single Project Pipeline (SPP) that is focused on four strategic sectors: transport, energy, environment

and social infrastructure. SPP aims to complement the wider regional investment projects part of the Berlin Process.

ICT sector is one of the important economic sectors in Albania. The development of ICT infrastructure and especially of broadband is crucial for economic and social development. As it was given in the EU Digital Agenda: “Europe’s future, sustainable growth and competitiveness depends to a large extent on ICT and its ability to embrace the digital transformation in all its complexity.”

There are four mobile operators in the market, about 80 fixed telephony operators, about 130 ISPs etc. The mobile penetration is 117% with over 3.1 million users based on number of active SIM cards; the fixed broadband subscriptions is 228000, the mobile broadband Internet users are over one million. The figures for Internet users and broadband are increased year by year, but the fixed broadband penetration remains in very low levels compared with other countries in the region and with EU. Especially the penetration for fixed broadband is less than 8% which is between the lowest in the region and EU. ITU report on Measuring of Information Society ranked Albania in the low level for IDI index. Fixed telephony and fixed broadband are the lowest sub-indicators in IDI index.

The improvement of the digital infrastructure and broadband connectivity is crucial for the economic development of the country. Further development on ICT infrastructure and especially in fixed broadband asks for huge investments. MIPA is taking necessary actions to promote investment for broadband connectivity. 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. The national broadband plan was approved on 2013. Some amendments are approved on 2015, but further efforts are needed to implement the national broadband plan. MIPA is preparing the legal and regulatory framework to promote investments, the cooperation between different companies and with other utilities in order to reduce costs for broadband networks and to address the right of way issues for electronic communications.

2. Policy implementation to fulfil the country specific priorities since May 2015

The May 2015 recommendations on infrastructure focus on energy and transport, two main pillars that have great impact on competitiveness.

On energy sector the recommendations relate to:

- Elimination of high fiscal risks in the electricity sector by reducing distribution losses at an average rate of 5% in the coming years and by improving bill collection rate.
- Prioritising adoption and implementation of the National Energy Strategy and the law on power sector, including speeding up the unbundling of the energy sector. The preparation of single sector pipeline of priority investments for energy is also considered of high importance.

The measures undertaken for reducing distribution losses yielded a 6% reduction to 31.8% (2015) from 37.8 (2014). The objective for 2018 is to reach a 19.8% level in distribution losses.

Period	2014	1 st semester 2015	2015	2016	2017	2018
Total losses in OSHEE Sh.a (%)	37.81%	32.28%	31.80%	26.90%	22.70%	19.80%

During the first 10 months of 2015 there was a noticeable improvement in the collection rate, which reached 107% of target. For the same period during 2014 the rate was 88%.

The law on Power Sector (law no. 43/2015), aligned with Directive 2009/72/EC of the European Parliament and of the Council of 13 July 2009 On common rules for the internal market in natural gas, and repealing Directive 2003/55/EC, was adopted by the Albanian Parliament on 30.04.2015 and entered into force on 13.06.2015.

A working group was set up in the Ministry of Energy and Industry that will draft the relevant bylaws for the law on power sector, the most prominent one being "The model of the electricity market", as well as the unbundling in the framework for the implementation of the Third Energy Package.

The reform of the energy sector is in progress, including improving energy security, developing gas connectivity and diversifying energy supply, in accordance with the European Directives and the Energy Community Treaty, in the framework of the Third Energy Package.

The law on Gas Sector (law no. 102/2015, dated 23.09.2015) implementing the Third EU Energy Package (Directive 2009/73/EC of the European Parliament and of the Council dated 13 July 2009, "On common rules for the internal market in natural gas, and repealing Directive 2003/55/EC", was adopted by the Albanian Parliament. In cooperation with Energy Community Secretariat and ERE, work has started for the preparation of bylaws pursuant to this law.

An important aspect of the new law on gas sector is the fulfilment of the obligation for the unbundling of gas transmission and distribution activities from Albpetrol, within June 2016. The Energy Strategy 2016-2030 is in the process of being updated.

Another important priority area of the GoA is transport. There are two main recommendations related to the priorities included in ERP 2015:

- Adopt and implement the transport strategy and action plan for 2016-2020;
- Focus investments on the core network and prepare single sector pipeline of priority investments for both transport and energy.

The Transport Sector Strategy is being drafted with technical assistance support from the European Commission. Its finalization, as a draft, is foreseen to be completed within third quarter of 2016. Within the last quarter of 2016, the strategy will be submitted for adoption to the Council of Ministers and subsequently to be approval by the Parliament.

Taking into consideration the Commission's Overview and Country Assessments and given Albania's limited investment capacity, prioritization of investments is properly realized, through a single project pipeline, based on traffic density analysis of REBIS study.

The railway law, which contains the sectorial reform, is fully prepared and is going to be presented to the Council of Ministers within December 2016. The law aims to improve the efficiency of the railway system and its integration into the regional and European market of transport services.

Upgrading of the Albanian rail network from Durrës to Macedonia, part of Pan-European Corridor VIII Rail TEN-T network, is a priority project. The feasibility study has been agreed to be financed under the 13th round of WBIF in the form of a 720,000 EUR grant and will be ready for Q4 2016.

The next step will be to secure the funds, estimated at EUR 3.3 million, for preparation of a detailed design project for the rehabilitation of existing railway line and construction of the missing section to cross the Albanian-Macedonian border.

Even though broadband connectivity was not part of ERP 2015, development of national ICT infrastructure is part of the main priorities of the GoA program and also part of the priorities defined in the strategic document adopted on digital agenda.

To address the obligations stemming from Article 104 of the SAA, and EU recommendations stemming from the 2014 Progress Reports, the Minister for Innovation and Public Administration (MIPA) will work to adopt the new law "On the development of high-speed electronic communication networks and the provision of the right of way," based on Directive 2014/61/EU

"On measures to reduce construction costs of electronic communications networks with high speed (broadband)".

3. Reform plans to fulfil the outstanding policy guidance

Reform Measure 1: Further liberalization of the energy market

The energy market liberalisation reform is ongoing and in accordance with the commitments under the SAA and the Energy Community Treaty, in the framework of the Third Energy Package. Following adoption of the respective laws on the power and gas sector, and building upon ERP 2015 measures, a number of actions are expected to be carried out:

- Drafting and adoption of bylaws in accordance with the provisions arising from the law on power sector and the law on gas sector. The full legal framework will be reflected in the model of electricity market that is currently being drafted and discussed.
- *Completion of projects in the transmission system :*
 - The 400 kV interconnection line "Albania-Kosovo".
 - The 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM), Albania's part and upgrade of 400/220 kV Elbasan2 SS.
- Continuation of construction of Trans Adriatic Pipeline (TAP Project), and fulfilment of the obligation for the unbundling of gas transmission and distribution activities from Albpetrol company.

Also a government priority is supporting of the new investments on the petroleum exploration and production activities to improve the local oil and gas production, such as the continuation of evaluation drilling works by companies SHELL and Petromanas on the Shpiragu Structure.

Timeline

In the coming years the following activities are planned:

2016

- Improving the legal framework of the power and gas sector.
- Completion of 400 kV interconnection line Albania-Kosovo.
- Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM)

2017

- Improving the legal framework of the power and gas sector.
- Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM)

2018

- Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM)

Cost per activity

- EUR 28.9 million for completion of 400 kV interconnection line Albania-Kosovo*
- EUR 70 million for completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (FYROM)**

**Financed from KfW but guaranteed by government guarantees.*

***Financed EUR 50 million from KfW (loan), EUR 15 million from WBIF (grant) and EUR 5 million from OST sh.a (including VAT).*

Budgetary impact

There is no budgetary impact for this reform measure.

Expected impact on competitiveness

The Albanian power sector is a centralized system that works with regulated prices. The further liberalization of the energy market will enable the participation of the private operators in the electricity market and will have a direct positive impact on competitiveness.

Reform Measure 2: Diversification of energy sources (Gasification)

The energy sector reform is ongoing and includes improving energy security, developing gas connectivity and diversifying energy supply, in accordance with the European Union Directives and Treaty of the Energy Community Treaty, in the framework of the Third Energy Package. In

order to achieve diversification of energy supply, inter alia the following actions are expected to be taken in subsequent years:

- Continued support of TAP as a strategic initiative for linking Albania to the European gas network.
- Drafting and adoption of the Gas Master Plan for Albania and Project Identification Plan (Grant, financing WBIF EUR 1.1 million).

Timeline

In the coming years the following activities are planned:

2016

- Drafting and adoption of the Gas Master Plan for Albania and Project Identification Plan
- Implementation of “Capacity building project for Large Gas Infrastructure Developments in Albania with the Private Sector” (Grant, financing Swiss Government EUR 6.6 million)

2017

- Implementation of “Capacity building project for Large Gas Infrastructure Developments in Albania with the Private Sector”

2018

- Implementation of “Capacity building project for Large Gas Infrastructure Developments in Albania with the Private Sector”

Cost per activity

Administrative costs.

Budgetary impact

20% VAT for grant by the Swiss government (EUR 1.32 million)

20% VAT for grant by WBIF (EUR 220,000)

Expected impact on competitiveness

Diversification of energy sources (gasification) will have direct positive impacts on competitiveness by enabling the entrance of a new energy source in the country energy market, and will contribute to increase the security of energy supply. This reform measure will have a direct social impact, while it will improve employment opportunities.

Reform Measure 3: Feasibility study for construction and upgrade of the Adriatic-Ionian Corridor

The Adriatic-Ionian corridor presents certain physical transport impediments which contribute to increased transport costs and reduce the reliability of supply chains thereby raising the cost of doing business and pushing potential investments away from the country.

The Adriatic-Ionian Highway/Expressway is included on indicative extension of the TEN-T Core Network (*PMs WB6 Joint Statement, Brussels, in April, 2015*) based on the SEETO comprehensive network which encompasses:

- the Albanian North-South Road Corridor linking the Montenegro border with the Greek border, through Albanian territory (Route 2).

A feasibility study is planned to be conducted in order to assess and address these physical impediments. The grant is approved by WBIF (December 2015, Round 14) Feasibility study for Adriatic Ionian highway/expressway (Routes 1&2).

This grant is requested to prepare the feasibility study and technical documentation of the Adriatic-Ionian highway/expressway going through the Montenegro and Albania Territory. The grant contribution would allow enhancing the maturity of projects for implementation along SEETO Route 2 through the preparation of feasibility study. Grant contribution is required due to lacking funding opportunities for the preparation of feasibility study and technical documentation. Total grant requested is EUR 3.5 million of which, EUR 2.5 million from Republic of Albania and EUR 1 million from the Republic of Montenegro.

Timeline

In the coming three years the following activities are planned:
2016

The implementation schedule for the reform measure shall consist of:

- Tendering of project preparation services, (first quarter 2016),
- Inception phase of feasibility study and feasibility study, (second quarter 2016).

1. Prepare an investment plan for the portion of SEETO Road Route 2 in R Albania that optimises economic returns;

2. Undertake environmental and social analysis of the route investment plan third quarter 2016.

Cost per activity

- Grant of EUR 2.5 million requested by the Republic of Albania

Budgetary impact

20% VAT of the grant sum (EUR 500,000) as local cost

Expected impact on competitiveness

The Adriatic-Ionian Highway/Expressway will impact:

- *Congestion:* Reduced traffic bottle necks, especially during summer tourist season
- *Road safety:* Reduced road accidents
- *Environment:* Reduced levels of noise and emissions
- *Socio-Economic:* Reduced vehicle operating costs and energy consumption plus reduced travel times leading to increased productivity. Contribution to better connections with neighbouring countries and sustainable urban development.

Reform Measure 4: Upgrading and construction of Durres Port Infrastructure

Port of Durres is currently the biggest port in Albania by volume of freight flows and passengers. Upgrading of the port's infrastructure will allow bigger cargo ships (cruisers included) to be anchored, increase freight volume, number of passengers and will also lower the cost of transport. It will comprise:

- the construction of the internal railway network;
- the deepening of the port basin; and
- the rehabilitation of 7th and 8th quays .

An internal railway network will be constructed within the port territory and it will serve to link port with the main railway network as well. The aim is to increase the volume of the current freight flows from 3.5 million tons/year, up to full capacity of terminals that is 5 million tons/year and more. The port is expected to increase container volumes from 50,000 TEUs/year, up to 100,000 TEUs/year.

Timeline

In the coming three years the following activities are planned:

2016

- Construction of the internal railway network
- Deepening of the port basin
- Rehabilitation of the 7th and 8th quays

2017

- Rehabilitation of the 7th and 8th quays

Cost per activity

- The internal railway network project will cost EUR 1.5 million. Financed by Durres Port Authority.
- The deepening of the port basin will cost EUR 4 million. Financed by Durres Port Authority.
- The cost for the rehabilitation of the 7th and 8th quays is estimated at EUR 1.8 million to be funded by EBRD grant.

Budgetary impact

20% VAT for rehabilitation cost of the 7th and 8th quays (EUR 360,000).

Expected impact on competitiveness

Upgrading of the port's infrastructure will allow anchoring of bigger cargo ships (cruisers included), increase freight volume, number of passengers and will also lower the cost of transport, which will bring greater economic growth, create employment, attract foreign investments etc.

Reform Measure 5: Adoption of new law in line with 2014/61/EC directive in order to reduce the cost for broadband infrastructure through cooperation, infrastructure sharing and synergies with other infrastructures and spectrum policy for further mobile broadband developments

A society based in knowledge and information, through the consolidation of digital infrastructure in the whole territory of the Republic of Albania; improvement of the quality of online public services and increase of governance transparency, is the vision defined in the Digital Agenda Strategy on 2015-2020 which has been adopted on April 2015.

The strategy sets out the development objectives for the period 2015-2020, as well as the main directions of policies that will be followed to fulfil these objectives. The strategy is associated with a mid-term action plan where are listed the activities to be done in order to fulfil the objectives of the strategy.

The National Broadband Plan was approved by DCM No. 468, dated 30.05.2013, 'On the approval of the National Plan for Broadband Development'. In regards to the national broadband plan, the DCM No. 300, dated 08.04.2015, "On some changes and amendments on DCM No. 468, dated 30.05.2013, 'On the approval of the National Plan for Broadband Development'" was approved. The latter changes reflect an acceleration of the implementation of the technological neutral principle and the reshuffling of the spectrum frequencies for the bands 900/1800 MHz and 2100 MHz. In July 2015 the mobile operators launched the LTE/4G services.

The right of way and fixed broadband infrastructure remain limited and promotion and incentives for further investments is needed.

In addition a mid-term and long term spectrum policy is needed in order to guarantee the future developments in LTE networks considering the free spectrum of digital dividend one and two in line with EC decisions. In the framework of the Berlin process, MIPA is organising with the support and collaboration of its regional counterparts and RCC a regional interconnectivity project in order to present to the European Commission for financial support eventually.

The proposed activity is under infrastructure priority Area of reform and it is part of the priorities of Government Program, ERP 2016, NSDI, BIDS, SEE 2020, Digital Agenda Strategy etc.

Timeline

In the coming three years the following activities are planned:

2016

- Approval of the new law on law "On the development of high-speed electronic communication networks and the provision of the right of way," compliant with Directive 2014/61/EU "On measures to reduce construction costs of electronic communications networks with high speed (broadband and with recommendations of EC in the Progress report 2014, regarding the addressing of right of way issue. Undertake effective prior consultation with private sector and other stakeholders on the new legal and regulation framework; drafting the spectrum policy to promote developments and investments in broadband connectivity and coverage through LTE networks;

2017

- Preparing and adoption of bylaws, complete the regulatory measures based on the primary law adopted "On the development of high-speed electronic communication networks and the provision of the right of way". Consultation process with the main

stakeholders; increase cooperation between different institutions working on utility regulation, increase the transparency of public investments and coordination for civil works for broadband connectivity. Capacity building to implement the legal and regulatory framework; permanent monitoring of the impact of the reform.

2018

- Review of the action plan of National Broadband Plan adopted on 2013, identify the actions needed to be undertaken for a continuous and sustainability developments for broadband connectivity and future developments considering all components of broadband ecosystem: demand side and supply side. Establish partnership with potential investors, notably international agencies supporting country development, with multinational companies, venture capital funds, investment and development banks. Permanent monitoring of the impact of the reform.

Cost per activity

- EUR 5292 - Draft new law On the development of high-speed electronic communication networks and the provision of the right of way;
- EUR 1764 - Draft spectrum policy paper
- EUR 3500 - Preparing and adoption of bylaws based on law adopted on high speed electronic communications networks;
- EUR 2000 - Undertake effective prior consultation with private sector and other stakeholders of legal acts and policy paper.

The cost for first, second and third activity is based on the estimation presented in NPEI 2016

Budgetary impact

Apart from staff administrative costs, there is no additional budgetary impact for this measure

Expected impact on competitiveness

Digital society is one of the dimensions under “Smart growth” pillar of SEE 2020 Strategy. Development of the broadband Infrastructure is one of the important goals of this regional strategy. In line with SEE 2020 objectives, EU integration process and national program a number of measures are forecasted. 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.

4.2.3. SECTOR DEVELOPMENTS

1. State of play and key obstacles to competitiveness

The contribution of agriculture and tourism to GDP, through the years, has fuelled economic growth and provided great employment opportunities. However, both sectors continue to face obstacles and challenges to sustainable growth.

Agricultural sector continues to face a number of challenges, including small farm size and land fragmentation, poor infrastructure, limited access to credit and grants, inadequate rural institutions, etc. Agri-food value chain integration and market participation is still limited, presenting significant income potentials and job creation though. The main challenge of the sector is low competitiveness. The fragmented and subsistence-oriented supply base, legislative gaps, poor enforcement of food safety standards, infrastructure deficiencies, high regulatory and

administrative cost, high level of informality, etc. have limited the development of the food industry. As a result, agriculture has not yet benefited from the advantages of the regional and European market opportunities.

Development of adequate skills of the labour force in the sector remains a significant challenge and needs to be addressed through the introduction of professional qualifications instruments. Most workers are either self-employed or unpaid family workers which raises the issue of formalizing their employment status.

Tourism is a key channel through which Albania can achieve sustainable long-term growth while safeguarding the environment. The tourism industry has emerged as a significant contributor to growth with 3.5 million inbound tourists in 2014 and therefore has become a strategic sector for growth and employment. Albania has significant endowments suited to tourism development across the whole country, but most of them are poorly developed and poorly planned. Despite all the above, the sector faces challenges linked with lack of coordination, planning and undisciplined development of the tourism industry. The competitiveness of the sector is weakened by the lack of well-defined rules and regulations of tourism activities, the absence of any form of classification, licensing, certification and monitoring system enabling higher standards and quality in the sector, unfair competition due to high level of informality, etc. Having competitive neighbours, high level of VAT in the accommodation, high air transport prices, lack of accommodation facilities with large capacities and harmonized standards compared with regional countries, unqualified management staff, lack of a well-planned platform for vocational training, etc. puts more emphasis on the needs to address the sectorial competitiveness aspects. With the potentials the tourism sector has for growth, a shift from the traditional and regional markets toward the EU and other high-income countries is required.

2. Policy implementation to fulfil the country specific priorities since May 2015

Adoption of concrete measures in agricultural sector and improvement of tourism policy framework notably incentives to formalize business activities, changes in the regulation and supervision of tourism activities, licensing, standards, inspections, planning, statistics collection and consumer protection are part of the ERP 2015 recommendations put forth by the Economic and Financial Dialogue. The GoA, in response to the recommendations, has undertaken several measures comprising adoption of respective legal acts and sector oriented actions.

The land reform in Albania has facilitated the transfer of critically important assets to rural families. Improvements and legal amendments to the agricultural land privatisation reform, fully in line with GoA's priorities, are being drafted and are expected to be finalised within June 2016. Meanwhile, during 2015, a number of relevant legal acts were adopted, as follows:

- DCM no. 337, dated 22.04.2015 "Procedures for determining the performance of the process of transferring agricultural land to former agricultural enterprises owned by beneficiaries";
- DCM no. 338, dated 22.04.2015 "On some amendments to DCM no.253, dated 6.3.2013 "Procedures for determining the fulfilment of acts of taking agricultural land owned for agricultural families in the villages of former agricultural cooperatives;
- DCM no. 994, dated 9.12.2015 "For the procedures of the registration of the property titles"

At the regional level, the Local Commissions established under the authority and dependence of the Prefect (law no.9948, dated 7.7.2008 "For reviewing the legal validity of the creation of property titles of agriculture land") in every Region continued their activity to review the legal validity of property titles on agricultural land, to address complaints on actions made during the process of privatization of agricultural land.

In addition, supported by the program "Sustainable management of the agriculture land" work is in progress to set up the Land Information System (LIS), its integration to Geographical Information System (GIS) and the set-up of the digital land register for all country administrative units. So far, 140,970 ha of agriculture land have been digitalised in 128 administrative units. The program is financed by the state budget on yearly basis and is part of the Medium Term Budget. The implementation is carried out by the Center for the Transfer of Technologies in Fushe-Kruje.

The IPA 2012 “Rural Credit Guarantee Fund” (RCGF), amounting at EUR 5.5 million, of which EUR 0.5 million is Albanian co-funding, is under implementation. RCGF has been established as a Not-for-Profit Foundation (NPF) based on the Albanian Law and an amount of EUR 3.5 million has been transferred by the EC to the Fund. The implementing agencies have been defined and agreements signed accordingly with the Albanian Union of Credit and Savings as well as several commercial banks in Albania. This project aims to set up the Credit Guarantee Fund in order to facilitate bank lending to medium and small-medium enterprises in the agricultural sector and agro-processing industries.

The new law on tourism (law no. 93/2015) defines clear rules of operation and national standards for all tourism activities in order to encourage and promote competitiveness in the sector, increase the quality of tourism services and consumer protection. Implementation of the law will be accompanied by the drafting of the relevant bylaws package during Q1 of 2016.

The legal framework on tourism shall include (i) the obligations of tourism businesses for providing statistical information in accordance with international standards; (ii) the conditions and procedures regarding the licensing of tourist agencies and tour operators; (iii) certification of tourist guides (iv) classification of accommodation facilities (v) obligations of tourism businesses to ensure their activities for potential damage that could be caused to tourists (vi) establishment of tourism inspectorate for the ongoing monitoring of tourism activities to ensure that standards are maintained (vii) adoption of the National Standards that will provide a series of obligatory criteria directly linked to consumer safety and security.

3. Reforms planned to fulfil the outstanding policy guidance

As outlined in the previous section, the land registry was significantly improved in 2015 with important effects on property rights and access to finance. Therefore, this ERP will focus more on the issue of land consolidation, which is identified above as one of the main obstacles to competitiveness of the agricultural sector.

Reform Measure 6: Consolidation and defragmentation of agricultural land

Land consolidation in Albania is not covered in the existing framework. The Operational Programme on Land Consolidation (OP-LC) is being drafted in the framework of FAO technical assistance project TCP/ALB/3301.

Land regulation reform will require the following steps:

- Adoption of the OP-LC;
- Preparation of the legal framework on land consolidation;
- Follow up with the cadastre work to integrate cadastral zones into the LIS and the registration of land parcels of undivided land with a unique number and cadastral zones with a unique name and cadastral number;
- Registration of property owners in the register;
- Land valuation, including land fertility;
- Consolidation of land based on voluntary requests by a majority of land owners of a specific cadastral zone;
- Raising awareness of the project and encouraging further voluntary requests;
- Improving infrastructure and accessibility;
- Dispute resolution of legal participants in the land regulation project.

During the year 2010, about 3600 land transactions were recorded for a surface of 830 ha agricultural land with a total registered value of 37.8 million EUR (4.4 EUR/m²). However, it is reported that many of these transactions are not for the purpose of agricultural development but for later conversion of land from agriculture to residential use and other uses).

Land consolidation projects will be carried out in parallel with infrastructure planning in terms of the quality of the road network and irrigation as part of an integrated approach to agricultural

sector development. Priority will be given to regions with developed and intensive agriculture where small and fragmented parcels significantly limit the further development of agriculture as a primary activity in rural areas, when interest is shown by the farmers.

Threats from further division of agricultural land among the heirs or other entitled persons should be brought to attention. Taxation on agricultural land might be considered as potential measure to remedy the process of multi-land entitlements but is not foreseen in the next three years.

Timeline

2016

- Adoption of the Operational Programme on Land Consolidation (OP-LC);
- Follow-up of the process of Land Information System and its integration to GIS (Fieri and Berati);
- Digitalisation of the land registers in 15 administrative units;
- Starting the preparations for the establishment of the institutional/organizational framework of LC and work for ensuring necessary funding.

2017

- Setting up the Land Consolidation unit in the Ministry of Agriculture, Rural Development and Water Administration and organize work for drafting the Law on Land Consolidation as well as necessary amendments to the existing laws (Law no. 8337/1998 "On the Transfer of Ownership of Agricultural Land, Forests and Pastures", Article.5.) etc.
- Development of a communication plan and conducting a targeted national campaign that will focus particularly on the local media in order to present real positive experiences of farmers from the completed consolidation projects.
- Prepare annual work program.
- The elaboration of the training program and training materials based on experiences accumulated during implementation of the LC pilot projects is a pre-condition for the successful implementation of a national LC program.

2018

- Implementation of pilot projects on land regulation in select municipalities.

Cost per activity

- EUR 180,000 for the integration Land Information System of 60,000 ha of Agriculture land and digitalization of cadastre parcels (2016)
- EUR 200,000 for the integration Land Information System of 70,000 ha of Agriculture land and digitalization of cadastre parcels (2017)
- EUR 180,000 for the integration Land Information System of 60,000 ha of Agriculture land and digitalization of cadastre parcels (2018)
- EUR 100,000 for implementation of a pilot project in municipalities (2018)
- EUR 100,000 for implementation of unfinished projects in municipalities (2018)
- EUR 5,000 for the development of a communication plan (2017).
- EUR 7,000 for the targeted national media campaign (2017).
- EUR 40,000 for the implementing the training plan (2017).
- EUR 150,000 for the technical assistance in the implementation of the pilot projects on land consolidation (2017-2018).

Budgetary impact

The total budgetary impact is EUR 180,000* for 2016, EUR 200,000** for 2017 and 602,000*** for 2018.

*The cost for 2016 is covered by MARDWA budget program 05470 "Sustainable land management"

** The cost for 2016 is covered by MARDWA budget program 05470 "Sustainable land management"

*** The cost for 2018 is partially covered by MARDWA budget program 05470 "Sustainable land management" for the value of EUR 250,000. The value of EUR 402,000 for the implementation of the Land Consolidation pilot projects and related activities and is not covered by MARDWA budget.

Expected impact on competitiveness

One of the main important impacts of the land consolidation reform will be the increase of the productivity of the agriculture production because of the economies of scale created as a result of the increase of the farm size. The increase of agriculture production will increase the competitiveness in domestic as well as foreign markets for these products which in turn will have impact in the increase of the exports as well as trade deficit reduction.

The land consolidation reform is a complex one and firstly based upon the establishment of the legal basis and proper regulation strongly related to the formalisation of the agriculture holdings as well as their economic activity, which means increase of the access to subsidies and rural credits by farmers and agro-businesses. In addition, will increase investments in agriculture and development of the formal land market.

In addition, land consolidation will lead to the increase of mechanisation of the agriculture which means increase of the new jobs too and improve the life quality in the rural areas.

Additional benefits will come from the increased awareness and capacity building of all actors involved on gender issues related to land consolidation.

Reform Measure 7: Standardization of Tourism Sector

This reform aims to improve the overall quality of products/services within the tourism industry (all tourism-related accommodation, restaurants, tour guides, tour operators, and other tourism-related service providers); raise the levels of demand nationally, regionally and internationally; reduce informality; promote competitiveness within the industry; and, provide valuable and reliable information on quality standards for the tourism and the travel industry.

Timeline

2016

- Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides;
- Preparation of the curricula for vocational training of tourist guides in collaboration with the University of Tirana and the Guides Association supported by WFTGA;
- Establishment of the Tourism Inspectorate.

2017

- Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides;
- Ongoing monitoring and tracking consumer complaints.

2018

- Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides;
- Ongoing monitoring and tracking consumer complaints.

Cost per activity

- EUR 29,000 plus administrative costs for the implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides;
- EUR 25,000 for the preparation of the curricula for vocational training of tourist guides in collaboration with the University of Tirana and the Guides Association supported by WFTGA⁸;
- EUR 279,000 for the establishment of the Tourism Inspectorate;
- Administrative costs only for the ongoing monitoring and tracking consumer complaints.

Budgetary impact

The total budgetary impact is EUR 315,000 plus administrative costs for 2016, EUR 11,000 plus administrative costs for 2017 and EUR 7,000 plus administrative costs for 2018.

⁸ World Federation of Tourist Guide Associations.

Expected impact on competitiveness

This reform will enable the delivery of equal and well-defined rules for the functioning of businesses in the tourism sector. Therefore it will reduce informality, enable better quality products and services in the tourism sector, it will further encourage and promote competitiveness in this sector, strengthen human capacity in the tourism sector as well as strengthen data collection and processing capacity.

4. Other reforms to help remove obstacles to growth and increase competitiveness

Albania is still facing important urban and regional development challenges. Regional disparities in access to public services and low capacities at the local level do not provide an enabling platform to support local economic development especially tourism, which is regarded as a still untapped key driver of economic growth in the country. Tourism activities are concentrated over a short period of time and are dominated by high-volume and low-value local markets.

The GoA in cooperation with the WB will support regional economic growth mainly through activities that will affect tourism development. The project's main activity will consist of investments in urban regeneration, infrastructure improvements and capacity building for institutional strengthening of local governments in South of Albania. This will in turn serve as a model for replication to other regions by taking advantage of their economic situation.

4.2.4. BUSINESS ENVIRONMENT, CORPORATE GOVERNANCE AND REDUCTION OF THE INFORMAL ECONOMY

1. *State of play and key obstacles to competitiveness*

The quality of regulations affects the daily business operations reducing the ability to compete in regional and European markets. Albania showed a decline in the WB Doing Business 2016 report, ranking at the 97th place out of 189 economies, deteriorated mainly due to temporary negative impact of territorial reform on new constructions. Ease of Doing Business shows fluctuations (e.g. DB 2014 at 108th place, DB 2015 at 68th place), despite many reforms undertaken in several areas such as starting a business, paying taxes, property registration, construction permit, energy reform etc. Despite a lot of efforts invested during the last years to reduce regulatory cost to business, enforcing contracts, construction permits, getting electricity, registering property, paying taxes, etc. are remaining obstacles for sustainable growth.

Access of SMEs to bank lending is a long lasting constrain, hindered by the large information asymmetries given the current level of informality, lack of adequate traditional collateral owned by SMEs and lack of strategies and financial instruments by banking system. The system faces limited funding for the underwriting institutions, high loan prices, limited regional coverage on rural areas, etc. Limited access to finance for SME is a binding constraint to growth and undermines the competitiveness of SMEs to integrate in regional and European markets. Banks in Albania allocate around 63% of their portfolio to large businesses, 19% to medium businesses and only 18% to small businesses, while the small businesses account for 94.5% of all established companies. The banking sector constitutes 95% of the financial sector and the NPL level as of October 2015 is at 20.5%.

Credit activity recovered in the first half of 2015, underpinned by favourable domestic currency lending interest rates, but slowed down during the third quarter. Private sector credit growth rebounded to 5.3% in June 2015 from a contraction of 12.5% in June 2014. This positive trend reflected mainly the easing of credit standards by banks, on the back of an anticipated sharp improvement in their asset quality, supported by the clearance of accumulated arrears and the obligatory write-off of loans held in "loss" category for more than 3 years, as of January 1st 2015. In September 2015, the annual credit growth of domestic credit decreased by 1.8%, due to a contraction of corporate lending, while the retail loans increased by 2.4%. From a currency

perspective, the domestic currency component, although representing only 39% of total loans, was the main driver of the rebound in lending activity in 2015.

All of the above become more severe due to informality, which is a major concern to economic growth, competitiveness and to public finances. The informal economy of Albania, assessed by international organizations, is at 35-40% of the GDP. The forecast of public revenues as a share of GDP for 2015 is at 27.6%, which is below the OECD average. Informality is undermining fair competition in the market and affecting negatively new investment. It constitutes a barrier to full participation in the economy and a hindrance to long-run economic development and poverty reduction. The shrinking of informal economy increases tax revenues, stimulating a rise in public spending, especially on infrastructure and services that support production expansion, leading to a rise in the overall economic growth rate.

2. Policy implementation to fulfil the country specific priorities since May 2015

The recommendations on National Economic Reform Programme 2015 highlight the importance of eliminating unnecessary regulatory burden to business as a response to the need for growth and enhanced competitiveness and improving access to finance for SMEs. The overall assessment of DG ECFIN/DG NEAR considers the measures to reduce regulatory burden as a clear direction to the increase of competitiveness, having a direct impact in the economic growth.

The May 2015 recommendations on business environment, reduction of unnecessary burden to business and access to finance focus on:

- Improve the business environment by implementing the merger of the NRC (National Registration Centre) and NLC (National Licensing Centre) and further ease the regulatory and administrative burden for businesses.
- Start the implementation of the simplification regime for authorisations.
- Make the newly established investment council fully operational.

In this regard, the National Business Centre (NBC) was established by law no. 131, date 26.11.2015, providing a one-stop shop for business registration and licensing. The on-line registration has been fully operational from the first quarter of 2015 and the testing of e-licensing for some category of licences is on-going. The review of authorisations was finalized in 2015 and recommendations for 5 main areas (agriculture and food, health, industry and energy, finance and customs) are provided. After consecutive consultations, the legal changes are expected to be implemented during the first half of 2016. The Investment Council is fully operational, with clear rules of procedures in place. 4 meetings are held during 2015, 3 of which during June-December 2015.

- Take further measures to address the issue of non-performing loans, involving the Bank of Albania and other relevant stakeholders as necessary, with a view to achieving a sustainable reduction of their level. In this context, addressing impediments related to judicial enforcement and collateral execution would appear helpful

To address this recommendation, a High Level and Technical Inter-ministerial Working Group was established by Order of the Prime Minister No. 78, dated 11.06.2015. An Action Plan with measures aiming to reduce the NPL level was jointly adopted by the Prime Minister and the Governor of the Bank of Albania in August 2015. During 2015, a new law on "Savings and Loan Associations and their Unions" and its regulatory framework was also drafted, aiming to strengthen the corporate governance and capital requirements of non-financial institutions and achieve sustainable financial positions. From January 2015, banks were required by BoA to undertake a write-off process for loans being under the "lost" category for 3 years.

Additional measures to improve business environment and reduce regulatory and administrative cost for business are implemented during 2015. Thus, the Albanian DB Action Plan (DB AP) 2014-2016 is monitored on a regular basis and information is provided to relevant stakeholders, national and international. The assessment of the actual plan is in progress and the updated AP 2016-2019 will be approved within the first quarter of 2016. As part of the current AP the new Code on Administrative Procedures, law no.44/2015 was approved, providing ground of the reform on better contract enforcement. Other reforms are ongoing in the area of property

registration with a particular focus on completion of first registration throughout the country and on updating the existing data on properties with a view to have the full e-cadastre in place by 2019.

The e-construction permit reform is in progress supported by the DCM No. 671, dated 29.07.2015 "On the Approval of the Territorial Development Regulation". The e-Permit platform will be used by 61 Municipalities and is financially supported by the Regional Development Fund. The tender for e-permit system is completed; the software system is in the final phase. All services provided will be part of the e-Albania government portal.

The joint conclusions of the ministerial dialogue between the Economics and Finance Ministers of the EU and the Western Balkans and Turkey highlights the importance of tackling the informal economy. From September 2015, the Albanian Government started the reform against informality with aiming to formalize the economy and contribute to fair competition in the market. 400 working groups with inspectors from the Directorate General of Taxation, State Labour Inspectorate, National Food Agency, etc. were set up. . As a result of the reform, during September-December 2015, compared with the same period of 2014, the number of cash register 6 times higher, (e.g. 22,238 cash register more or an increase of 541%), 23,615 new contracts for fiscal cashiers are in place (an increase of 451% or 19,332 new contracts more), the number of fiscal voucher issued is (e.g. an increase of 130%), etc. During 2015, 39,650 new businesses are registered compared with 2014 (an increase of 137%), while 61% of the newly registered businesses were during September-December 2015 (e.g. 19,709 newly registered businesses or an increase of 443%). The number of active subjects as reported on 31 December 2015 were 144,181 or 43% more compared with 31 December 2014 and the number of registered employees on 31 December 2015 was 638,087 or 76,429 more than 31 August 2015.

This is an area of primary concern and actions toward a consolidated agenda will be considered during 2016. An Action plan to tackle informality and advancing the tax reform is being discussed. The main actions encompass (i) function-based restructuring of GDT's headquarter, (ii) enhanced risk management capacities, (iii) functional cooperation with other institutions such as National Business Center (ex NRC), (iv) streamlining of local and regional offices to match business needs, (v) establish a taxpayer service function, etc.

3. Reform plans to fulfil the outstanding policy guidance

As outlined in the previous section regulatory burden to business and access to finance are areas of major concern to growth and competitiveness. Therefore, ERP 2016 will focus on reduction of regulatory burden to business and the effective implementation of NPL NP.

Reform measure 8: Reduce Regulatory Burden to Businesses

This reform measure aims to reduce of licensing requirements and provision of services for business through one single window. Despite recent progress and many ongoing reforms, a systemic approach with regard to the reduction of regulatory cost to business, to avoid the introduction of unnecessary procedural requirement, not deriving from the overriding reason of public health and safety, is required, Reduction of the high level of complexity in rules, procedures and reporting guidelines, with a particular focus on transparency and predictability, remain amongst core priorities to enable long-term investment and improve business development, thus positively effecting growth. This reform measure addresses also, indirectly though, the quality of the regulations affecting business.

As part of the BIDS 2014-2020, NSDI 2015-2020 and DB AP 2014-2016, this reform measure builds on ERP 2015 measures and implemented activities in this regard. ERP 2016 will focus on:

- Making NBC fully operational; simplifying the procedures and reducing the time for services delivered by NBC;
- Implementation of the recommendations of the report on authorisations;
- Review the existing licenses and permits issued by NBC (former NLC), with a view to abolish cumbersome requirements;
- Prepare recommendations for legislative changes for licenses and permits;
- Introduce e-licensing platform for all licences, permits and authorisation, where feasible;
- Facilitate the construction permit practices through the simplification of procedures;
- Develop IT solution to ensure effective e-permit service through the one stop shop for construction permits;
- Trainings for the staff of Agency of Territorial Development and 61 municipalities;
- Permanent monitoring of the reform activities implementation.

The proposed measure is cross-institutional and requires intensive consultation and coordination. Strengthening of the capacities in each line ministry remains a priority which is addressed through the Reform of Public Administration, even though it is not included in ERP 2016. This process will be complemented with a continuous monitoring of any legal initiatives of line ministries, to avoid introduction of new licences, permits and authorisations. Therefore, establishment of solid monitoring instruments to allow timely checks on new legislative changes is of utmost importance.

Timeline

In the coming three years the following activities are planned:

2016:

- Making NBC fully operational, simplifying the procedures and reducing the time for services delivered by NBC implementation of the recommendations of the report on authorisations, review the existing licenses and permits issued by NBC (former NLC) with a view to abolish cumbersome requirements, facilitate the construction permit practices through the simplification of procedures, develop IT solutions to ensure effective e-permit service through the one stop shop for construction permit.

2017

- Prepare recommendations for legislative changes for licenses and permits, introduce e-licensing platform for all licences, permits and authorisation, where feasible, trainings for the staff of Agency of Territorial Development and 61 municipalities, permanent monitoring of the reform activities implementation.

2018

- Introduce e-licensing platform for all licences, permits and authorisation, where feasible, trainings for the staff of Agency of Territorial Development and 61 municipalities, permanent monitoring of the reform activities implementation.

Cost per activity

- EUR 196,000 to make NBC fully operational and simplifying the procedures and reducing the time for services delivered by NBC;
- EUR 55,000 to introduce e-licensing platform for group III of licences, permits and authorisation, where feasible;
- EUR 60,000 to facilitate the construction permit practices through the simplification of procedures;
- EUR 827,000 to develop IT solution to ensure effective e-permit service through the one stop shop for construction permits;
- The other activities proposed within this measure are administrative cost of staff.

Budgetary impact

Total budgetary impact is EUR 872,000 for 2016, EUR 72,000 for 2017 and EUR 37,000 for 2018.

Expected impact on competitiveness

This reform measure will have positive impacts on competitiveness by reducing administrative burden to business and focusing on the binding constraints to growth and competitiveness. It will improve the doing business ranking, alleviate the most stringent procedures for business operations and reduce the time and costs of administrative procedures. A total of 12 authorizations are expected to be eliminated and other 15 be streamlined through the NBC system. In addition, the e-Permit reform will considerably simplify the construction permit, making business infrastructure investments faster and less costly. This reform measure will increase considerably the investments and contribute to job creation and competitiveness.

Reform measure 9: Effective implementation of the National Plan to reduce the level of NPLs in the banking system (NPL NP)

The reform measure integrates and sequences reforms with regard to supervision, enforcement, debt restructuring and insolvency. It proposes many legislative changes and other implementing activities with a view to reduce the level of NPLs. As described in the diagnostics, NPL level is a concern and therefore there is need for a consolidated agenda in this respect.

This reform is part of the national priorities to improve the access to credit for SMEs, a response to address the binding constraint to growth, an obstacle to SME- growth, and part of SBA recommendations. This measure is in line with BIDS 2014-2020 and SEE 2020, Pillar III "Sustainable Growth". ERP 2016 will focus on:

- Conduct regulatory changes by the BoA to revise the terminology on write-offs;
- Approve a new Bankruptcy Law and respective guidelines complaint;
- Increase public awareness on Bankruptcy practice and train the inspectors of Supervisory Bankruptcy Agency;
- Facilitate collateral execution inter alia by introducing amendments in the Code of Civil Procedures;
- Approve legal changes on Securing Charges and Registration of Immovable Properties,
- Reduce NPLs through use of out-of-court debt restructuring,
- Prevent the accumulation of potential future NPLs through encouraging early credit restructuring;
- Upgrade the Credit Registry;
- Continues monitoring of the implementation of the NPL NP.

In parallel to this reform measure there are many other initiatives complementing the ease of access to finance. Respectively, Italian-Albanian program to support SMEs, KfW SME lending program, EBRD agriculture lending program, Government funds in support of Women Entrepreneurship and Start-up Fund. The challenge remains with the monitoring of the impact of these programs with a view of better orientation and coordination of future initiatives in support to SME lending through donor's programs and budget support.

The reduction of NPLs should be strongly considered with the prevention of future NPLs. Although this approach is embedded in the activities proposed under this reform measure the challenge remains with the effective and efficient monitoring of the AP implementation.

Timeline

In the coming three years the following activities are planned:

2016

- Conduct regulatory changes by the BoA to revise the terminology on write-offs, approve a new Bankruptcy Law and respective guidelines complaint, facilitate collateral execution inter alia by introducing amendments in the Code of Civil Procedures, reduce NPLs through use of out-of-court debt restructuring, upgrade the Credit Registry, continues monitoring of the implementation of the NPL AP;

2017

- Increase public awareness on Bankruptcy practice and train the inspectors of Supervisory Bankruptcy Agency, approve legal changes on Securing Charges and Registration of Immovable Properties, prevent the accumulation of potential future NPLs through encouraging early credit restructuring, continues monitoring of the implementation of the NPL NP.

Cost per activity

- EUR 212,500 for legislative changes on Bankruptcy Law, including guidelines and implementing provisions of the law.
- EUR 187,500 for increase public awareness on Bankruptcy practice.
- EUR 187,500 for training of inspectors of Supervisory Bankruptcy Agency on the new law.
- The other activities proposed within this measure are administrative cost of staff

Budgetary impact

Total budgetary impact is EUR 25,000 for 2016 while no budgetary impact is anticipated for 2017 and for 2018.

Expected impact on competitiveness

The national action plan aims to reduce NPLs and improve credit risk, through the risk sharing process with banks and provision of incentives to boost credit growth. As banks easy credit standards following credit risk improvement, credit demand will be met by the appropriate credit supply. In the process, banks' supply for credit will become less selective improving access to finance for a large share of businesses, boosting the chances for creating employment opportunities.

The national action plan on NPL reduction, together with the government reform towards business formalization will mitigate the existing constraints of execution of collateral, thus easing up lending and increasing financing possibilities by lowering the cost for credit. Increased access to finance would bring about an increase in investment resulting in increased productive capacity, competitiveness, sales, and ultimately growth.

4. Other reforms to help remove obstacles to growth and increase competitiveness

The implementation of the proposed reform measures within this area will be carried out in parallel to other reforms affecting regulatory cost to business. This reform measure is complemented by other reforms of ERP 2016 access to finance and reduction of NPLs, facilitating trade, effective implementation of recent legislative changes promoting new investment, etc. In addition, though not included in ERP 2016, there are other important reforms priorities, as part of Government reform program contributing to the reduction of regulatory burden to business. These reforms are mainly focused on property registration, enforcing contracts, paying taxes, getting energy, public administration reform with a view to consolidate the administrative capacities to implement reform priorities, etc. and are recognised by the joint conclusions of the ministerial dialogue as areas to be addressed in support to the improvement of business environment.

4.2.5. TECHNOLOGICAL ABSORPTION AND INNOVATION

1. *State of play and key obstacles to competitiveness*

Private sector investment in research and development, technology and innovation (RDTI) is low compared to OECD countries, which is partially a result of difficulties to get access to external sources of funding. The SME sector in Albania is tilted towards low-technology, labour-intensive and low-cost activities. Weak linkages between the scientific and the private sector do not ignite business innovation. The lack of innovation and absorption of technologies by SME-s is a constraint to growth, not binding though, and is additionally affected by other factors, including policy coordination and limited financial resources to support innovation, etc. Development of a sustainable innovation system may directly impact private sector development, increase participation in high value chain, improve export conditions and boost economic growth.

The national research and innovation system remains fragmented and needs further reforms. Introduction of technology parks, incubators, business clusters, etc. may increase the potentials for innovative private sector initiatives. The quality of human capital is another aspect with great importance for innovation and technology absorption by SMEs. Albania, as all Western Balkans countries, faces scarcity of skills in the market. The need to increase the quality of human capital in Albania is recognized as a priority by the Government initiatives and other strategic frameworks, including also ERP 2015. In that context, science and scientific research plays a significant role in the country's development as future gains and economic growth will be increasingly dependent on increased R&D and innovation to enhance competitiveness and national value added.

Expenditures and investment in research in Albania remains low. According to the OECD, in 2014 Gross Expenditure for Research and Development (GERD) was less than 0.4% of GDP. The National Strategy for Science, Technology and Innovation (NSTTI) 2009-2015 foresaw tripling of GERD as share per GDP from 0.2% to 0.6% over the period 2009-2015. Even though the implementation of this strategy met the target for 2014, the country still lags behind the EU average GERD (e.g. EU data for 2009 is 1.9%).

The contribution of private sector to GERD is still low. According to UNESCO data for 2008 the share of investment of private companies in GERD was only 3.3% while the government share was 80.8%. In addition, Global Competitiveness Index 2014-2015 ranked Albania at 120th place out of 144 countries in innovation indicator, showing weakness in the area.

Albanian research institutions have limited participation in international research programs, and consequently experience little benefit. This has been primarily due to weak institutional capacities and weaknesses in the research-oriented human resources base.

In the area of science and scientific research there is a need to integrate Albanian scientific research within the European Research Area, to have more active participation of Albanian research activity and entities in all European programs of Research and Development, greater efforts to increase investment in the level and quality of research and innovation in Albania, to improve legal framework for intellectual property rights and orient research initiatives need toward market demand.

2. *Policy implementation to fulfil the country specific priorities since May 2015*

The May 2015 recommendations focus on:

- the adoption and starting of the implementation of the law on higher education, as well as the new strategy for higher education. In addition, it focusses on the establishment of an independent accreditation system for all public and private universities.

In response to this, the Law No.80/2015, "For higher education and Scientific Research in Higher Education Institutions of the Republic of Albania" has been approved. The drafting of bylaws and implementing provisions is in progress and is expected to finish within mid-2016. Increase of the level of scientific research will be supported by the distribution of the Scientific Research Grant,

as provided by the law, which includes funds for scientific research and funds for PhD studies granted to higher education institutions based on applications.

With a view to establish an independent accreditation system for all public and private universities, an agreement between the Albanian Ministry of Education and Sport and the British Quality Assurance Agency was signed in September 2015. This agency will conduct accreditation of higher education institutions and will assist in capacity building by training the staff of the current Agency for Accreditation of Higher Education in order to enable it to be part of the European Network of Quality Assurance.

To improve the governance of scientific research the law on higher education and scientific research foresees the establishment of two new institutions, namely the National Agency for Scientific Research (NASR) and the National Agency for Funding in Higher Education (NAFHE).

The recommendations on National Economic Reform Programme 2015 highlight the importance of effective implementation of the Competitiveness Fund and Innovation Fund by AIDA, allocation of appropriate level of resources in the coming years through state budget, further complementary instruments to support the development of innovation at different stages such as grants for joint business-academia projects and grants for R&D activities in companies, etc.

During 2014-2015 grants under the Competitiveness Fund and Innovation Fund, provided by state budget, have been implemented in close consultation with beneficiaries. In 2015, 24 companies have benefited from the Competitiveness Fund with a total of approximately 121,000 Euro. The innovation fund is extended for 2015-2017 through the DCM No. 406, dated 13.05.2015 "On the set up of the Innovation Fund". The Voucher Scheme is established by DCM No. 715, dated 26.08.2015 "On the set up of Voucher Scheme" aiming to provide assistance to SMEs (manufacturing, agro processing, software design and production) for know-how and technology transfer, development of new products, marketing, etc. In addition, proper IP system may contribute to enhance competitiveness of technology-based enterprises and promote innovative products and services. The enforcement of IPR in Albania needs to be strengthened. A new strategy 2016-2020 on IPR is being developed, focusing in particular on enforcement. In addition, market surveillance inspectorate includes the inspection of IPR aiming to increase the level of protection of IPR.

The Digital Agenda 2015-2020 was approved on 1st April 2015. The Digital Agenda Strategy, in includes different directions to follow: i) Innovation support for businesses by stimulating the human capacity growth in the auditing of technology in general and specifically, for the ICT; ii) Establishment of incubators for ICT; iii) Cluster support for ICT businesses, pursuant to Pillar 52 of the European Digital Agenda 2020, for the increase of the value chain for ICT products and services; iv) A better utilization of the Information and Communication Technology (ICT) in order to assist future business development; v) Strengthening and supporting start-up businesses in relation to the digital and online services, as well as offering alternative of financial support, such as the innovation scheme ICT voucher.

3. Reform plans to fulfil the outstanding policy guidance

As outlined in the previous section Albania needs to improve the innovation system and strengthen the capacities for R&D and innovation. Reforms toward innovation and scientific research are prominent needs to ensure economic growth and increase the competitiveness of Albania. ERP 2016 will focus on the implementation of the digital agenda, with a particular focus on ICT, and enhancement of the institutional capacities for research and innovation.

Reform measure 10: Effective implementation of Digital Agenda Strategy

The Digital Agenda Strategy has introduced many instruments with a view to increase the number of SMEs using innovation and ICT.

The proposed reform is part of the priorities of the Government Program, ERP 2015, NSDI, BIDS 2014-2020, Pillar II “Smart Growth” of SEE 2020, SBA, and Albanian Digital Agenda Strategy 2015-2020. DG ECFIN/DG NEAR considers reforms in innovations as a clear direction toward the increase of competitiveness. In this respect, focus should be put on ensuring the success of the on-going project “Triple Helix”, which provides for a platform of cooperation between (i) government, (ii) higher education and research and (iii) private sector. The ERP 2016 will focus on:

- Approval of the action plan “Policy framework for innovation 2016-2020” compliant with OECD recommendations in May 2015, in the framework of “Triple helix”;
- Undertake effective prior consultation with private sector and academia on the policy framework;
- Institutionalize the monitoring structures and instruments;
- Increase innovation skills for SMEs by using ICT;
- Implementation of the “Innovation HUB” project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities;
- Establish partnership with potential investors, notably international agencies supporting country development, with multinational companies, venture capital funds, investment and development banks;
- Permanent monitoring of the impact of the strategy.

The implementation of the Digital Agenda faces many challenges and requires a high level of coordination among the tripartite actors, public institutions, private sector and academia. The reluctance to participate by either actor may undermine the goal and therefore decreases the expected results. In addition, the capacities of AIDA to implement specific activities under this reform remain a distinct constraint for the effective implementation of the measure.

Reforms and initiatives in the area innovation are mainly implemented through donor’s support. Reliance on donor funds only may constitute a weakness for the long run reforms and implementation of ongoing needs in this area. Therefore due consideration needs to be given in this regard in the coming years.

This reform measure is very much linked and related to other reform measures proposed in ERP 2016 and other reforms being implemented by GoA, in particular measure to improve access to finance, increase FDI through strategic investments and economic zones, etc.

Timeline

In the coming three years the following activities are planned:

2016

- Approval of the action plan “Policy framework for innovation 2016-2020” compliant with OECD recommendations in May 2015, in the framework of “Triple helix”, Undertake effective prior consultation with private sector and academia on the policy framework, institutionalize the monitoring structures and instruments, Increase innovation skills for SMEs by using ICT, implementation of the “Innovation HUB” project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities.

2017

- Institutionalize the monitoring structures and instruments, increase innovation skills for SMEs by using ICT, Implementation of the “Innovation HUB” project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities, permanent monitoring of the impact of the strategy.

2018

- Increase innovation skills for SMEs by using ICT, implementation of the "Innovation HUB" project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities, Establish partnership with potential investors, notably international agencies supporting country development, with multinational companies, venture capital funds, investment and development banks, Permanent monitoring of the impact of the strategy.

Cost per activity

- EUR 20,000 to draft the action plan "Policy framework for innovation 2016-2020",
- EUR 5,000 Undertake effective prior consultation with private sector and academia on the policy framework,
- EUR 170,000 to increase innovation skills for SMEs by using ICT,
- EUR 300,000 Implementation of the "Innovation HUB" project,
- The other activities proposed within this measure are administrative cost of staff

Budgetary impact

There is no budgetary impact for this policy measure.

Expected impact on competitiveness

The proposed reform measure will spread the application of innovative ideas, stimulating more competitive projects every year. This will contribute to the increase of competitiveness of SME and their readiness to use ICT. It is expected an increase by 50% the number of businesses using ICT and 10% number of businesses in ICT due to digital agenda.

The expected impact from Digital Agenda will result with an increased level of skills and expertise for 100 entrepreneurs/teams with strong driving forces representing a broad set of ventures, 100 SMEs and Micro enterprises in the very first stage of their economic life, 500 graduated and non-graduated youths that are interested in entrepreneurship activity, 500 students of professional ICT schools and faculties and related profiles in Tirana. Investment innovation programs and ICT will contribute to the increase of competitiveness and ultimately employment and economic growth.

Reform measure 11: Enhancement of institutional capacities for research and innovation

The reform measure aims to ensure effective implementation of the new law "On Higher Education and Scientific Research in Higher Education Institutions of the Republic of Albania". The quality of higher education, complemented with other reforms to secure skills in market, remain amongst the core determinants affecting competitiveness and ensuring sustainable growth.

The new law on Higher Education provides for the establishment of two important institutions, namely the National Agency for Scientific Research and the National Agency for Funding of Higher Education. The law defines only the main functions of these institutions and does not provide further details regarding their functioning and enhancing of institutional capacities.

The proposed reform is part of the priorities of the Government Program, ERP 2015 and NSDI. DG ECFIN/DG NEAR considers implementing of the law on higher education as well as the new strategy for higher education and establishment of an independent accreditation system for all public and private universities as core actions toward a more effective scientific research and innovation. The ERP 2016 will focus on:

- Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Scientific Research,
- Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Funding in Higher Education,
- Strengthen the capacities for the Agency for Scientific Research,
- Strengthen the capacities for National Agency for Funding of Higher Education.

The approval of the law on higher education and scientific research signals the start of the implementation of the reform. The establishment of two new institutions requires firm actions to make them operational and efficient. Securing more funds for the agencies is a challenge while the capacity building for the staff is crucial for the successful implementation of the reform. This challenge can be overcome by seeking support in EU assistance programmes (IPA and framework programmes) as well as negotiating with international institutions.

The reform measure proposed is a response to the need to transform the Albanian's research system into an important instrument for the country's development.

Timeline

In the coming three years the following activities are planned:

2016

- Drafting and adopting the necessary legal basis for the establishment of the National Agency for Scientific Research, Drafting and adopting the necessary legal basis for the establishment of the National Agency for Funding in Higher Education

2017 and 2018

- Strengthening capacities for the Agency for Scientific Research, Strengthening capacities for National Agency for Funding of Higher Education.

Cost per activity

- EUR 1,000 for setting up the legal framework for the creation of both institutions.
- EUR 5,000 for capacity building of both institutions.

Budgetary impact

The total budgetary impact is EUR 1,000 for 2016 and EUR 5,000 annually for 2017 and 2018.

Expected impact on competitiveness

Scientific research is the major driving force to increase competitiveness of a country. The potential impact of investments in research and innovation on productivity growth is even higher for developing countries, given the opportunity for "catching up" associated with larger investments in innovation. In order to achieve research excellence, it is essential to have systems that are competitive and transparent, with competitive recruitment and administrative procedure. Providing the right enabling conditions to improve scientific research and its quality is the result of appropriate governance mechanisms and adequate and competitive research funding.

In Albania, increasing funding for research and ensuring its continuity over time remains a great challenge. In parallel, governance of research institutions needs to improve in line with the aim of research excellence. Good governance in research funding implies meritocracy and transparency in grant funding, as well as accountability, evaluation and monitoring practices, transparency, and performance evaluation that can gauge contributions to knowledge, local economic and social needs, and growth. Good governance also entails having a clear rationale behind both institutional funding, which ensures stability, and project-based funding. Further sustained efforts are required at the national level to strengthen the research and

innovation capacity and increase Albania's competitiveness. The level of investment in research remains very low and there is an ongoing need to strengthen the building of human capital.

4.2.6. TRADE INTEGRATION

1. State of play and key obstacles to competitiveness

Albania has increased its openness to trade, with total imports and exports rising to 57.7% of GDP in 2014 from 51.6% in 2010. However, trade volume of Albania for 10 months of 2015 decreased by 3%, with a higher decrease in export than import. CEFTA countries importance has increased during the first half of 2015 showing the potential to diversify the exporting markets. Trade with Kosovo is becoming important and actions toward additional facilitation are required.

The reduction of tariffs is not bringing the expected results and trade exchange of Albania remains below its potential. Albania is partially integrated into regional value chains, benefiting only partially from the opportunities of CEFTA. Lack of connectivity and quality of infrastructure is another obstacle negatively affecting trade. Simplified procedures, in particular Authorised Economic Operators (AEO), need to be efficiently implemented in close cooperation with private sector. There are currently only 4 requests from the private sector to get the AEO status.

Facilitating trade is important as a response to the reduction of time and cost to import and export, affecting competitiveness of the country. Albania is ranked at the 37th place in trading across borders in DB 2016. Standard procedures require 7 documents to export and 8 to import. Time and cost to import and export remains higher than the average of OECD countries and similarly in the Western Balkans region. There are at least 6 border agencies operating in the clearance procedures and coordinated practice is needed. The risk management is operational in customs since 2006 while agricultural products are 100% physically checked.

In the field of investments, the Albanian economy encounters a number of challenges that could undermine its efforts for attracting foreign investments, in particular the small domestic market and limited purchasing power, which might be discouraging to many medium and large investors, and the high competition posed by neighbouring countries. The land ownership and the process of property restitution and compensation of property remain a sensitive issue impeding new green field investment. Although the legal changes for property compensation are approved there is need for careful and balanced implementation.

The lack of a qualified work force, high informal economy, protection of intellectual property rights, capable and responsive public administration remain a concern to foreign investment.

The level of FDI inflow in 2014 reached 8.8% of GDP from 7.7% in 2012. The value of FDI in 2014 is EUR 878 million or 4.9% less than in 2013 (EUR 923 million). For the first 6 months of 2015 the figure reached EUR 483 million, with an increase of 31.6% compared with the same period of 2014.

2. Policy implementation to fulfil the country specific priorities since May 2015

The recommendations on National Economic Reform Program 2015 highlight the importance of activities to boost trade integration and increase foreign investment as direct contributor to growth, competitiveness and employment. The overall assessment of DG ECFIN/DG NEAR considers the reforms undertaken within CEFTA context, with a particular focus on trade facilitations and investment, as a clear direction toward increase of competitiveness and therefore concrete activities have been implemented during 2015. Although, the overall assessment of May 2015 does not provide specific recommendations in trade integration area, implementation of the programme for Authorized Economic Operators (AEO) and additional activities to facilitate trade are highlighted.

Albanian legislation on AEO is functional. The law no. 102/2014 "Customs Code" and its implementing procedures, partially harmonizing the EU Regulations in this matter, put into force from 1 January 2015 the legal provisions for AEO and the simplified export and import procedures. The simplified procedures for clearance at importers premises are in force compliant to DCM No. 366, dated 30.04.2015 "On some amendments and additions to the Decision No. 205, dated 13.4.1999 of the Council of Ministers "On implementing provisions of Customs Code", as amended. These provisions are aligned with EU Regulation No. 2454/93. In addition, within the CEFTA context the strategy on AEO was approved by the CEFTA Joint Committee in 2014. During 2015 the action plan of controls based on risk management for agriculture products is introduced. The Scientific Committee and Scientific Panels to assess the risk were established. Removal of non-tariff barriers to trade, as part of ERP 2015, was mainly focused in reducing administrative burden in the bilateral trade with Kosovo and other countries of the region. An action plan to simplify border crossing procedures with Kosovo is implemented and monitored every two months. As a result the trade volume with Kosovo for the first half of 2015 increased by 42% compared with the same period of 2014. Export increased by 56% while the increase in import was 1.5%.

The acceptance of the WTO TFA is at the final stage of internal legal procedures, expected to be finalized within the first quarter of 2016. The National Committee for trade policy and facilitation, to be chaired by the Minister responsible for trade, will be functional within the first half of 2016. The Committee will respond to the commitment of WTO TFA and the needs to strengthen the administrative capacities in trade policy. It will also oversee the process of negotiations on trade facilitation in the context of CEFTA. Albania is following the negotiations for trade facilitation within the context of CEFTA.

In addition to trade facilitation measures, the overall assessment of May 2015 emphasizes the importance of FDI and the need to attract foreign investment. In this regard, four important laws covering economic zones, strategic investment, concessions and PPPs and tourism were approved during 2015, providing for a new momentum in attracting new investment. The strategic sectors having a particular focus aiming to attract foreign investment are infrastructure, energy, tourism and agriculture. The reform is expected to have an impact on creating new jobs, increase economic growth and supporting local entrepreneurship through the value chain. The law entrusts AIDA as the responsible administrative structure for providing services to investors in a "single window". AIDA performs the role of assisting strategic investors and will implement fast tracking procedures until the realization of the investment project. To address the concerns of property ownership amendments of the law on property restitution and compensation are in the approval process.

Other ongoing reforms during 2015 have been designed to increase the efficiency of the tax administration and the fight against corruption. Constant dialogue has also been established between the business community and through the creation of the Investment Council which is chaired by the Minister of Economic Development, Tourism, Trade and Entrepreneurship.

AIDA has initiated an Investment Road Show in certain targeted countries. As part of this initiative AIDA organized a series of business forums and meetings in Italy, Austria, Germany and China. During 2015 business forums and meetings were organized in Dusseldorf, Graz, Brescia, Prague, Milan, Hong Kong, Frankfurt etc. with a view to attract the interest of foreign investors.

3. Reform plans to fulfil the outstanding policy guidance

As outlined in the previous section, a balanced focus on trade facilitation and improved conditions for foreign investment are areas of major concern to growth and competitiveness. Therefore, ERP 2016 will focus on trade facilitation and effective implementation of recent legislative changes promoting new investment.

Reform measure 12: Facilitate trade through deep interagency cooperation

The reform measure aims to improve institutional and regulatory environment with a view to facilitate trade across borders and an overall and reduce the economic distance to markets is key to the global integration of Albania. Efforts will be invested to simplify clearance procedures, including reduction of burdensome sanitary and phytosanitary inspections during cross-border trade, improvement of interagency information exchanges, synchronize the working hours of customs and technical control agencies, etc.

The proposed reform is part of the priorities of Government Program, ERP 2015 under boosting trade reform measure, Pillar I "Integrated Growth of SEE 2020, BIDS 2014-2020. The ERP 2016 will focus on:

- Introduce risk management in Albanian Food Safety Agency and develop the management methodology and database tools for the Albanian Food Safety Agency,
- Issuance of a Minister's Order for the adoption of the risk management policy for food inspection and the establishment of a risk management unit within the Albanian Food Agency,
- Facilitate the exchange of information with Kosovo for most traded agriculture products;
- Simplify documentary sanitary and phytosanitary requirement;
- Introduce an all-inclusive approach with regard to the simplified customs procedures;
- Issuance of the instruction of the Minister of Finance for the implementation of AEO;
- Promote AEO concept with private sector through a series of B2B meetings;
- Increase the capacities of customs administration to implement AEO practice and liaise with the best practices in the region;
- Assess on regular basis the efficiency of the application of AEO practice.

The trade facilitation agenda will be focused simultaneously on national and regional measures, with particular attention to the negotiations of the Additional Protocol 5 on trade facilitation within CEFTA. Consultation with the stakeholders, in particular with brokers and freight-forwarders, on the provisions of the Additional Protocol 5 will be complementing the efforts in the trade facilitation agenda. In parallel to this, the multilateral agenda on trade facilitation, in particular the implementation of the WTO Trade Facilitation Agreement, will have due consideration. Trade facilitation agenda is very much dependant on other processes, regional (CEFTA) and multilateral (WTO) and therefore threats to delays in specific aspects may be not overcome by Albania alone. A sound and permanent consultation and cooperation in the regional and multilateral agenda is required and therefore strengthening of internal capacities of public administration is crucial. The challenge in the later is substantial and an all-inclusive approach in the consultation with private sector through the National Committee on Trade Policy and Facilitation is required.

This reform measure is very much related to other reforms undertaken to simplify beyond the border requirements. Thus, the harmonization of technical regulations and sanitary and phytosanitary measures will directly impact the effective implementation of this ERP reform measure.

Timeline

In the coming three years the following activities are planned:

2016

- Introduce risk management in Albanian Food Safety Agency, and develop the management methodology and database tools for the Albanian Food Safety Agency, Issuance of a Minister's Order for the adoption of the risk management policy for food inspection and the establishment of a risk management unit within the Albanian Food Agency, Facilitate the exchange of information with

Kosovo for most traded agriculture products, Simplify documentary sanitary and phytosanitary requirement, Issuance of the instruction of the Minister of Finance for the implementation of AEO,

2017

- Simplify documentary sanitary and phytosanitary requirement, Facilitate the exchange of information with Kosovo for most traded agriculture products, Promote AEO concept to private sector through a series of B2B meetings, Increase the capacities of customs administration to implement AEO practice and liaise with the best practices in the region, Assess on regular basis the efficiency of the application of AEO practice, Introduce an all-inclusive approach with regard to the simplified customs procedures,

2018

- Introduce an all-inclusive approach with regard to the simplified customs procedures, Promote AEO concept to private sector through a series of B2B meetings, Increase the capacities of customs administration to implement AEO practice and liaise with the best practices in the region, Assess on regular basis the efficiency of the application of AEO practice.

Cost per activity

- EUR 180,000 to introduce risk management in Albanian Food Safety Agency and develop the management methodology and database tools for the Albanian Food Safety Agency;
- EUR 45,000 to facilitate the exchange of information with Kosovo for most traded agriculture products;
- EUR 180,000 to simplify documentary sanitary and phytosanitary requirement;
- Promote AEO concept to private sector through a series of B2B meetings;
- The other activities proposed within this measure are administrative cost of staff.

Budgetary impact

The budgetary impact is already presented in the reform measure “Reduce Regulatory Burden to Businesses”.

Expected impact on competitiveness

The reform measures proposed will have a direct impact on the reduction of the time and cost to import and export, and positively impact Albania’s international trade. In addition, it is expected that the electronic exchange of data within the CEFTA context will reduce clearance time with these countries by 1/3. The increased capacities of both, border agencies and private sector, will contribute to a smooth implementation of new practices such as AEO, etc. The reform measure will also contribute to the improvement in ranking in the trading across borders indicator of the DB report 2017 while providing a solid basis for continuous improvement. The expected increase on export during 2016-2018 is expected at 9% per year. The expected trade openness is expected to be increased at 60% by 2017. The proposed reform measure will have indirect impact on employment due to the increase of trade and reductions of the related cost. This reform measure will also contribute to the lowering of the prices for consumers with the required quality and safety.

Reform measure 13: Effective implementation of recent legislative changes promoting new investment

A strong and transparent investment policy framework supports the development of the local business and attracts foreign investors. In particular, in the absence of a strong private sector foreign investment becomes even more important in the achievement of the country’s goal to improving competitiveness and productivity. Albania, as other Western Balkan countries, is engaged in low-value added production, which is mainly due to the lack of a developed innovation system or insufficient level of foreign

investment. The proposed reform measure addresses the main constraints to allow the shift from lower to higher-value added production.

The proposed reform is part of the priorities of Government Program, ERP 2015 under boosting trade reform measure, Pillar I "Integrated Growth of SEE 2020, BIDS 2014-2020 and contributes to the increase of competitiveness. ERP 2016 will focus on the implementation of the law on strategic investment, economic zones and PPP:

- Adopt a specific guideline and simplified manual on the implementation of the legal package for strategic investment;
- Train AIDA staff and operational working groups from line ministries on the legislative requirements for strategic investment;
- Adopt the rules of procedures of the Committee for Strategic Investment;
- Establish the network of existing strategic investor and potential future investors;
- Establish the electronic registry of strategic investors;
- Assess the impact of the law on strategic investment within 2017;
- Adopt the regulation for the functioning of the technical and economic development areas;
- Adopt the instruction on rules of application of economic development areas in private property;
- Establish the PPP electronic registry.

Albania is facing a pressing issue with the increase of investor-state disputes, having significant budget implications, potential negative impact in future investment and high reputation risk. It is critical for Albania to develop mechanisms to circumvent grievances of investors before they are elevated to legal disputes. This concern will be considered next year with a view to introduce a sustainable solution to the concern. Capacities of AIDA in implementing the law on strategic investment are crucial.

Timeline

In the coming three years the following activities are planned:

2016

- Adopt a specific guideline and simplified manual on the implementation of the legal package for strategic investment, Train AIDA staff and operational working groups from line ministries on the legislative requirements for strategic investment; Adopt the rules of procedures of the Committee for Strategic Investment, Adopt the regulation for the functioning of the technical and economic development areas, Adopt the instruction for the implementation in private property, Establish the PPP electronic registry.

2017

- Establish the network of existing strategic investor and potential future investors; establish the electronic registry of strategic investors; assess the impact of the law on strategic investment within 2017.

Cost per activity

- EUR 25,000 for the training of AIDA staff and operational working groups from line ministries on the legislative requirements for strategic investment;
- EUR 36,000 for the electronic registry of strategic investors;
- EUR 83,000 for PPP electronic registry;
- The other activities proposed within this measure are administrative cost of staff.

Budgetary impact

Total budgetary impact is EUR 83,000 for 2016, EUR 36,000 for 2017

Expected impact on competitiveness

The reform proposed will have a direct impact on strategic investment in particular. The increase of FDI inflows is expected to be at an annual average of 6-7%. The objective of the reform measure is to reach the share of FDI per GDP at the level of 9-10% by 2018.

4. Other reforms to help remove obstacles to growth and increase competitiveness

Trade facilitation and investment is complemented with other reform priorities of ERP, mainly those related to the administrative and regulatory burden to business, innovation and technology absorption, etc. In addition, the reform measures proposed under this area are strongly related to the EU integration process and acquis harmonisation. The later will mainly support the elimination of “beyond the border barriers” deriving mainly from the unnecessary trade barrier, non-harmonized technical regulations and SPS measures, etc.

In addition, activities and initiatives under SEE 2020 and RCC will also contribute to many aspects of the proposed reform measures, both in trade and investment agenda.

4.2.7. EMPLOYMENT AND LABOUR MARKETS

1. State of play and key obstacles to competitiveness

A qualified labour force that meets the needs of the labour market and a broader inclusion of all social and gender groups is a driving engine for the economic development and improvement of the social welfare of the country.

The Government of Albania recognises that employment and labour market participation in the country remain low and informal economy is still a significant obstacle. However, as a result of GoA's initiative in 2015 to reduce informality during the September-October period of the same year a total of 73,000 new employees were declared or 51,000 more than the same period in 2014. Further efforts are still needed to encourage formal employment and address informality through better law enforcement, introduction of incentive schemes etc.

The mismatch between skills demand and supply; and working conditions related to the Occupational Safety and Health (OSH) practices constitute other obstacles to employment. The level of job creation in Albania does not keep pace with the high number of jobseekers, including first labour market entrants and young people.

The progress made recently to strengthen Vocational Education and Training (VET) institutions needs to be fully matched with increasing quality and relevance of educational outcomes for the labour market.

Addressing of deficiencies in the labour market comprise: a) the opening of 10 employment offices, based on a new service delivery model according to EU standards; b) a comprehensive review of the existing Active Labour Market Measures (ALMP), leading to a reformulation of its operational procedures and the design of new programmes based on the existing needs of registered jobseekers; c) the design and introduction of a performance management system at the National Employment Service (NES); d) consolidation of legal framework on Employment Promotion on registered jobseekers, on VET system functioning, on Crafts and Trades, on Albanian Qualifications Framework (AQF), and on Labour Code and OSH/Labour Inspection regulations; e) the promotion of the VET providers and programmes, as well as of job opportunities, at national and regional levels; f) the completion of Skills Needs Assessments (national and regional survey, and sectoral demand analysis); g) an analysis for setting-up the Sector Skills Committees; h) the elaboration of a Human Resources development strategy for VET staff including the preparation of a training programme for a “Basic Didactics Program for VET teachers and Instructors”; i) quality check of Labour Force Survey data and revision of methodology according to EUROSTAT requirements and piloting of the ILO international standards on labour underutilization; j) drafting and adoption of OSH regulations, capacity building actions delivered to labour inspectors and awareness campaigns on how to improve working conditions; k) reinforce social dialogue dynamics; l) policy dialogue and coordination for

the implementation of the Sector Reform Contract for Employment and Skills under IPA 2015 funds, including the IPMG-ESS⁹ establishment.

2. Policy implementation to fulfil the country specific priorities since May 2015

Continuous restructuring of the VET system with a view to improving the relevance of the training for the needs of the labour market, is one of the recommendations highlighted on the National Economic Reform Programme 2015.

Under the National Employment and Skills Strategy (NESS) 2014-2020, assessment and rationalization of public VET providers and the adaptation of the training offer to the needs of the labour market is considered as a key priority. To narrow the gap in skills demand and supply, a Skill Need Analysis study will assess private sector needs for employer qualifications and vocational training. The results will feed into devising new curricula and opening new education programmes.

On the other hand, institutional changes in the VET system aim at better linkages with the labour market and will be followed in 2016 by the introduction of an apprenticeship system whereby students spend at least 30% of their classes at local businesses.

The Government has introduced during 2015 a series of new or improved employment promotion programmes, in particular active labour market measures to be implemented and evaluated during 2016, together with the new law on “unemployed jobseekers” and other legislative measures.

Following the Sector Wide Approach of IPA II, the GoA, through a Decision of the Strategic Planning Committee in March 2015, has endorsed the establishment of Integrated Policy Management Groups (IPMGs) in four priority sectors, including the sector on employment and social policy under the Ministry of Social Welfare and Youth (MSWY). In this framework GoA has coordinated strategic policy and administrative functions across its institutions with the aim to ensure prioritisation of actions resulting from different national strategies in the skills and employment sector.

Improving labour market and qualification systems requires building the capacity of relevant institutions, in particular the Departments of MSWY responsible for employment, migration, VET and social policies, the National Employment Service (NES), the National Agency for VET and Qualifications (NAVETQ) – or the future Agency for Employment and Skills - the State Inspectorate for Labour and Social Services (SILSS), the State Social Services and the National Youth Service (NYS).

3. Reform plans to fulfil the outstanding policy guidance

Reform measure 14: Improve quality and coverage of VET while ensuring linkages with labour market

This reform measure aims at forging linkages between VET and labour market needs, implementing the Albanian Qualifications Framework, capacity building for VET instructors and extending VET coverage geographically and demographically.

The need to improve the VET system is considered an important aspect for the country’s economic development. In line with SEE 2020 and NESS 2014-2020 a large number of measures comprise the map for the improvement of VET system, but for ERP 2016 the focus will be on the following:

- Implementation of Albanian Qualifications Framework;
- Adoption of law on VET;

⁹ Integrated Policy Management Group – Employment and Social Sector

- Skills development for VET teachers and trainers (by drafting policies for recruitment, professional development, assessment of competences and training of VET teachers and trainers);
- Extend VET coverage to rural areas and marginalised groups;
- Establish linkages with private sector for offering training/apprenticeship schemes.

Implementation of AQF shall include the establishment and implementation of sector skills committees; revision and linking of curricula to the AQF; development of occupational and qualification standards; adaptation of curricula to specific requirements of people with disabilities; selecting bodies and putting in place procedures for the validation/recognition of prior learning at the system level; revision of the AQF legal framework; development of quality assurance mechanisms. Implementation of the AQF will be accompanied with skills development for VET teachers and trainers, including drafting of a new policy for recruitment and professional development of VET teachers and instructors; assessment of competences of teachers in public VET institutions; demand analysis of VET teachers and instructors; organisation and delivering of training for all VET teachers (in-service training programme), including obligatory capacity development on gender equality and social inclusion/diversity issues.

The extension of VET offer to rural areas and marginalised groups shall include outreach to vulnerable people, with particular attention to Roma and people with disabilities, upgrading of buildings, workshops and equipment; including facilities for girls/women and people with disabilities.

Timeline

In the coming years, the following activities are planned:

2016

- Adoption of VET law
- VET offers and employment opportunities are better matched including the rationalisation of national network of VET providers
- Actions to develop and implement the Albanian Qualifications Framework
- Adoption of legislation on AQF

2017

- *Strengthen competencies of VET teachers and teacher trainers:* (at least 50% of VET teachers trained through basic didactics course in VET by 2017)

2018

- *Extend VET offer to the rural areas and to the most marginalised groups:* Share of students graduating from vocational schools 12.9% by 2018 (baseline 2013/2014 academic year, 8.9%)
- *Competencies of VET teachers and teacher trainers are improved:* at least 70% by 2018 (baseline: 2014: 0)
- *The Albanian Qualifications Framework is developed and implemented:* by 2018, at least 20 new curricula according to AQF requirements.

Cost per activity

Approximately EUR 50 million will be available in the medium term for this priority, as follows:

- National Funds – State Budget 2016–2018: EUR 32.8 million (VET budget programme);
- EU Sector Budget Support 2016–2018: cca EUR 15 million;
- Italian Government Cooperation Agreement (expected) 2016–2018: cca EUR 2.5 million.

Other contributions: EU IPA Support to VET EUR 3.4 million (expected 2016-2017); Swiss Government financing cca EUR 5.9 million in support programmes (UNDP, Swiss contact and Helvetas implementation); GIZ Cooperation Programme on VET cca. EUR 8.02 million (2010-2016).

Budgetary impact

Total budgetary impact is EUR 13.9 million for 2016, EUR 9.4 million for 2017 and EUR 9.5 million for 2018.

Expected impact on competitiveness/social outcome

Economic growth during the second decade of transition in Albania has largely been the result of a shift in labour from low to higher productivity sectors and structural transformations, which have created jobs in manufacturing industries and services while the role of agriculture has decreased. In line with this trend, the Government is devising its growth supporting policies with a wider reaching and better-structured approach, which ensures sustainability and creates the conditions for job creation in strategic and knowledge-based sectors of the economy. As a result, knowledge and skills are at the heart of this inclusive economic growth model, as well as the improvement of living conditions standards for the most vulnerable groups of population, as defined in NESS 2014-2020.

Reform measure 15: Modernise public employment services, increase employment of women, youth and vulnerable people

The proposed reform, part of the Government priorities, NSDI, NESS 2014–2020 and social inclusion and gender equality policies, will focus on:

- Modernising and increasing efficiency of public employment services (PES);
- Introducing new and more efficient employment promotion programmes for increasing women and youth employment;
- Revision of labour market legal and institutional framework.

In order to provide modernised and increased efficiency of public employment services, PES regional offices will be reorganised according to the New Service Model and will become accessible to all jobseekers. A plan for the recruitment, development and training of PES staff will be drafted. In addition, registration, profiling and gender-sensitive counselling for jobseekers, primarily aimed at the most vulnerable groups (older women, low skilled youngsters, people with disabilities, social beneficiaries and Roma) will be offered.

Another important aspect of this reform measure entails introducing tailor-made entrepreneurship programmes and internship and employment opportunities targeted at women, youth and marginalised groups as well as design and implementation of measures in relation to social entrepreneurship; creation of conditions for fostering employment in the third sector (social business).

Labour market legal and institutional framework will be amended to fully comply with ratified international conventions; including the regulation and accreditation system of private employment agencies and strengthening of the cooperation with the public employment services; further approximation with EU Directives on working conditions and occupational safety and health standards; strengthening of the role of the National Labour Council and its specialized Commissions; expansion, recognition and improvement of inspection services to reduce the number of Labour Law violations, especially on workers' safety and health in the workplace.

Timeline

In the coming years, the following activities are planned:

2016

- Adopt revised Labour Code;
- *Introduce new and more efficient employment promotion programmes to achieve increased women and youth employment (increase youth employment by at least 0.4%; female employment rate to increase by 0.5%; compared to 2014 baseline), through promotion of participation and continuous monitoring and adjustment of employment promotion programmes;*
- *Reorganisation of ten labour offices under the new service model.*

2017

- *Actions to increase labour market participation of vulnerable and marginalized people increased through better outreach of EPPs and modernisation of PES* - share of unemployed jobseekers benefitting from Employment Promotion Programmes at least 3.5% by 2017 (baseline 2014: 2.6%);
- *Measures to increase employment of women by 0.7%* (baseline 2014: 43.4%).

2018

- Adopt relevant secondary legislation in line with EU *acquis* requirements;
- Create and make fully operational 6 VET multifunctional centers;

Cost per activity

Approximately EUR 65 million will be available in the medium term for labour market and employment promotion programmes, as follows:

- National Funds – State Budget 2016 – 2018: EUR 47.2 million (MTBP, Labour market, and Labour inspection budget programmes);
- EU Sector Budget Support 2016 – 2018: cca EUR 15 million;
- Italian Government Cooperation Agreement (expected) 2016 – 2018: cca EUR 2.5 million.

Other contributions: EU IPA Support to VET EUR 3.4 million (expected 2016-2017); Swiss Government financing cca EUR 5.9 million in support programmes (UNDP, Swiss contact and Helvetas implementation); GIZ Cooperation Programme on VET cca. EUR 8.02 million (2010-2016).

Budgetary impact

Total budgetary impact is EUR 16.3 million for 2016, EUR 15.4 million for 2017 and EUR 15.15 million for 2018.

Expected impact on competitiveness/social outcome

Economic growth during the second decade of transition in Albania has largely been the result of a shift in labour from low to higher productivity sectors and structural transformations, which have created jobs in manufacturing industries and services while the role of agriculture has decreased. In line with this trend, the Government is devising its growth supporting policies with a wider reaching and better-structured approach, which ensures sustainability and creates the conditions for job creation in strategic and knowledge-based sectors of the economy. As a result, knowledge and skills are at the heart of this inclusive economic growth model, as well as the improvement of living conditions standards for the most vulnerable groups of population, as defined in NESS 2014-2020.

4.2.8. FOSTERING SOCIAL INCLUSION, COMBATTING POVERTY AND PROMOTING EQUAL OPPORTUNITIES

1. State of play and key obstacles to competitiveness

Albania has a mix of programmes and measures for the provision of social protection to its citizens through social insurance, social assistance (financial and social care), disability support, and a range of policies to support inclusion and equity.

The main challenges and priorities in the pension and social insurance reform 2015-2020, include the need to strengthen the contributory principle of the pension system and to generate a greater participation rate, improve the financial viability of the scheme and to reduce the deficit; as well as providing a social pension for resident citizens without income from old-age pension. In addition, measures need to be taken to broaden the risk-sharing base of pensions and social insurance through the introduction of a fully funded and defined contribution.

Non-contributory social protection programmes include financial assistance for poverty alleviation (Economic aid programme) and disability benefits. The lack of clear linkages in the design of the NE and the disability programme to the outcome of the beneficiaries, as well as the

lack of effective linkages across these pillars with employment programmes reduces the effectiveness of social policy.

Social care services are limited. However, since 2002 successive governments have embarked on a wide ranging process of social care services reform, but a viable formula for the funding of social care services is yet to be articulated.

There is a need to establish a consistent system to measure the composition, efficiency and effectiveness of social inclusion policies that address risks among the population, and also address idiosyncratic and covariate risks that affect vulnerable population such as the poor, elderly, minorities, people with disabilities, women and children and other categories. The Statistics for Income and Living Conditions (SILC) has been piloted in Albania and once rolled out nationally will provide a common basis for assessing and monitoring social inclusion in Albania. Likewise, significant steps are being taken to improve the content and quality for monitoring gender equity, disability and minority rights.

In the context of on-going reforms, priorities focus on the following: (i) the need for increased efficiency of the financial assistance scheme, shifting from a passive to active scheme through reintegration programs and altering them with employment schemes; (ii) the need to create functional and effective social care services based on the principle of diversification, decentralization and deinstitutionalization for better targeting and inclusion of vulnerable groups in social protection programs with a focus on the individual and family; (iii) establishing a system for monitoring and measuring social inclusion across the policy domains of poverty reduction and social protection, employment and skills, education and training, health, basic needs, and participation and human rights; and (iv) promote transparency and accountability in the way social inclusion is measured and used to inform the performance of public services. Reform in the pension scheme has been underway since 2015.

Ensuring broader education across all levels of a society, particularly among its marginalised groups, increases social inclusion opportunities and improvement of quality of life, employment opportunities etc.

The educational system in Albania as a whole is experiencing a number of significant issues, affecting all levels. The target for enrolment in pre-school education institutions aims to achieve inclusion (enrolment) of all children of the age group 3-5 years. For the period 2009-2010, only 74,914 children belonging to the age group 3-5 years old (51%) were included in the system. During the school year 2012-2013, this enrolment was 81,448 children (76.3%). The school dropout rate was targeted to be reduced to zero, but the dropout rate in basic education in 2009 stood at 0.46%, while by 2012 it was 0.39%¹⁰.

The main challenges over the 2015-2020 planning period focus on the need to: (i) increase and maintain enrolment levels at the pre-university level; (ii) address inclusion more pro-actively (iii) improve overall curricula, the quality of education, and (iv) professional quality of teachers at all levels.

2. Policy implementation to fulfil the country specific priorities since May 2015

The government is currently enhancing efforts to ensure coordinated strategic policy and administrative functions across institutions in the Employment, Skills and Social policy Sector, aiming at implementing a sector approach. The Integrated Policy Management Group (IPMG) has been established chaired by the Minister of Social Welfare and Youth and with the participation of other line ministries and public institutions. The IPMG will coordinate policies across the sector and ensure alignment and coordination of policy priorities, objectives and budgets.

¹⁰ NSDI 2015-2020

A social protection strategy has been prepared in order to address reform priorities in the 2015 – 2020 period. The Social Inclusion Policy Document underlines the need to establish a statistical data collection framework to monitor public policies in the area of social inclusion. The government has initiated some new policy measures to support inclusion of vulnerable categories, such as the reintegration scheme of referring social assistance beneficiaries to active labour market programmes. A Pension Policy Document was prepared in 2014 analysing scenarios for the financial viability and increased security of the population. Amendments to the law on Social Insurance were passed in 2014 and started implementation in 2015, including the introduction for the first time of a social pension.

There are no ERP recommendations of May 2015 that specifically address pre-university education. Nevertheless, the GoA is undertaking measures to adopt and implement new curricula based on competences according to EU standards and train teachers based on these curricula.

3. Reform plans to fulfil the outstanding policy guidance

Employment and skills reform with a focus on aligning education, employment and social policies more closely with EU objectives and policies. The Employment and Skills strategy 2014–2020 aims at improving linkages between labour market demand and supply through better qualification of the workforce; addressing the needs of individuals at risk of poverty and social exclusion through better access to education, employment and social services as well as employment and income opportunities. Establishment of linkages between employment and skills and social protection systems is key to achieving sustainable results. The social protection strategy and social inclusion policy document aim at mitigating poverty, ensuring access to social services for vulnerable people and ensuring inclusive education and early childhood development measures for all children. The coordination between social assistance programmes and active labour market measures will allow activation strategies grounded on a mutual obligation system.

Reform measure 16: Strengthening social protection and social inclusion measures

The reform will be implemented through the following actions:

- Increase the financial sustainability of the pension and social insurance scheme. The conceived reform aims to achieve: (i) equitable benefits for all, in rapport to the size of the contributions made, restoring and further deepening system contributory principle; (ii) an acceptable level of population coverage with elements of Social Security as well as the coordination of the system with economic aid without discouraging the contributory system; (iii) a fundamental reform of the rural pension scheme in reducing subsidies contribution in a shorter time and deserved pensions allocated based on equal contributions; (iv) improvement of indexing methods for pensions by institutionalizing only the replacement and development of contributions and avoiding problems or emergencies that arise at certain time and leading to serious short-term and long-term problems; (v) improvement of the financial sustainability of the system and guaranteeing acceptable and deserved benefits; (vi) reformation of supplementary insurance schemes; (vii) a single formula for pension calculation by unifying the two schemes (Urban-Rural) with integrated retirement allowances; (viii) completion of administrative reform that modernizes the social security system and defining the objectives for improving the system of collecting the contributions and arrears; (ix) the establishment of the social pension scheme for the elderly, 70 years old,, who due to various reasons have not been able to fulfil the minimum period of contributions of 15 years and who have no other income earned from properties, inheritance or investments.
- Increase the efficiency and targeting accuracy of cash transfer programmes through:
 - Establishment of the National Electronic Registry for economic aid management at national level by 2017

- Incorporation of social reintegration scheme by 2017 over 5% of the beneficiaries will be involved in the active policies of labour market, creating package of integrated services and job opportunities
- Strengthening of the disability allowance programme administration by introducing automated registries and reforming the evaluation system
- Establish system for consistent monitoring of social inclusion needs and impact in employment, education, social protection, health and housing, in respect of individual rights and prevention of discrimination.

Timeline

The following activities are planned under this reform measure:

2016

- Establish the electronic register in pilot regions/local governments.

2017

- Reduce dependency rate on pension scheme from 80% in 2013, to 61% by 2017.
- Establish the electronic register in pilot regions/local governments.

2018

- Introduce the national electronic registry for over 95% of economic aid beneficiaries.
- Improve targeting accuracy of economic aid programme, by 2017 to cover 54.5% of extreme poor families and 36.9% of the total poor families.
- Establish Statistical Indicators and Integrity Group (SIIG) to ensure consistency in the definition and use of indicators establish a historical baseline of indicators (2010-2015) and ensure compliance with the introduction and transition to EU SILC.

Cost per activity

Social Insurance: Approximately ALL 356 billion will be spent on social insurance in the 2016–2018 period from national sources (87% from contributions).

Social Protection: Approximately ALL 67 billion will be allocated to the social protection programme in the medium term from national sources: of this, on average 76% will fund the disability allowance programme; 20% on the social assistance programme (NE) and only 3% on social care services.

The budget in the social insurance and social protection programmes is dominated by current transfers.

External partners' contributions to the social protection programme include:

- Social protection (non-contributory): The World Bank Social Assistance Modernizations project (budgetary support), loans in the amount of EUR 38 million 2012–2017; EU IPA matching grant to SAMP project (EUR 1.5 million);
- Social care services (social protection) Support to Social Care Service Reform (SDC grant implemented through UNICEF) cca EUR 2.45 million.
- Social Inclusion¹¹: Approximately ALL 4 billion (EUR 29 million) under MES (current transfers); ALL 1.3 million in social housing (both capital and current transfers); ALL 395,000 in social inclusion (management/monitoring).
- External assistance: The Social Inclusion Project (SDC grant implemented through UN) EUR 2.8 million; EU;
- Social Inclusion/Roma: Project in support of Roma/Egyptian communities (expected to be implemented 2016) – funding TBC.

Budgetary impact

The budgetary impact of the reform measure in the medium term (2016–2018) amounts to EUR 985 million in 2016; EUR 1.03 billion in 2017 and EUR 1.08 billion in 2018.

**Based on strategic documents and action plans drafted in cooperation with the donors, the figures include financing for social insurance, social assistance, disability support pensions, social inclusion with contribution of other institutions such as MES, MUD and local government, etc.*

¹¹ Budget programmes Social Inclusion in MSWY; Inclusive education under basic education and secondary education programmes under Ministry of Education & Sport (MES); INSTAT Surveys; Social Housing under Ministry of Urban Development (MUD))

Expected impact on competitiveness

The priority area is directly linked with society and population wellbeing, especially by targeting children and youth and vulnerable categories. General wellbeing and education at an early stage improves the outcomes and productivity of children and youth into adulthood; while effective safety net systems enable reintegration of vulnerable people into productive life.

Reform measure 17: Drafting and implementation of a competence based curricula and training of teachers

The education system in Albania presents certain gaps both in the quality of curricula taught and the enrolment rate of marginalized groups at the pre-university level. Addressing of these gaps requires undertaking several measures such as (i) adoption and implementation of new curricula based on competences according to EU standards (ii) training of teachers based on the new curricula and (iii) supporting a broader enrolment rate of children from marginalised groups and repatriating migrants at the pre-university level.

This reform measure, in line with Dimension D of SEE 2020 'Human Capital Development', the objectives of the new Strategy on Pre-university Education as well as NSDI 2015-2020, includes the following activities for the period 2016-2018:

- Drafting, piloting and implementation of new curricula, based on EU standards;
- Training of staff from central and local educational institutions;
- Training, certifying and periodical licensing of teachers;

Timeline

In the coming three years the following activities are planned:

2016

- Drafting of new curricula
- Drafting of new school textbooks
- Training of staff from central institutions, local education units and school directors (400-500 staff/year).
- Training, certifying and periodically licensing of teachers (4000-5000 teachers/year).

2017

- Training of staff from central institutions, local education units and school directors (400-500 staff/year).
- Training, certifying and periodically licensing of teachers (4000-5000 teachers/year)
- Piloting of new curricula.

2018

- Training of specialists from central institutions, local education units and school directors (400-500 staff/year).
- Training, certifying and periodically licensing of teachers (4000-5000 teachers/year).
- Inclusion of new curricula in the whole pre-university education system.

Cost per activity

- EUR 205,885 for training of staff from central institutions, local education units and school directors.
- EUR 1,499,844 for training, certifying and periodically licensing of teachers (each year 4000-5000).
- EUR 368,028 for the drafting of the new curricula.
- EUR 368,028 for piloting of the new curricula.
- EUR 368,028 for extension of the new curricula.

Budgetary impact

The total budgetary impact is € 920,469 for 2016, € 926,649 for 2017 and € 1,000,405 for 2018.

Expected impact on competitiveness

Education is directly linked with labour market needs and economic development. Equal access to education for all groups of society and improvement of education services directly influences social outcomes. Therefore, better access in education and improvement of education system enable for better social integration and indirectly positively influence employment chances.

4.3. Summary of reform priorities

The government of Albania, in line with important strategic documents such as, see 2020, NSDI 2015-2020 and other sectoral strategies, and following up on the EU overall country assessment 2015 recommendations has prioritised for this ERP a total 17 reform measures covering a wide range of thematic areas: finance, energy, transport, broadband connectivity, agriculture, tourism, business environment, trade integration, technological innovation, education, vet, employment, social inclusion. The following is a list of the 17 reform measures presented in this ERP:

- Reform measure 1: ***Further liberalization of the energy market***
 - Reform measure 2: ***Diversification of energy sources (Gasification)***
 - Reform measure 3: ***Feasibility study for construction and upgrade of the Adriatic-Ionian Corridor***
 - Reform measure 4: ***Upgrading and construction of Durres Port Infrastructure***
 - Reform measure 5: ***Improve the legal and regulatory framework for high speed broadband networks***
 - Reform measure 6: ***Consolidation and defragmentation of agricultural land***
 - Reform measure 7: ***Standardization of Tourism Sector***
 - Reform measure 8: ***Reduce regulatory burden to business***
 - Reform measure 9: ***Effective implementation of the National Plan to reduce the level of the NPL***
 - Reform measure 10: ***Effective implementation of Digital Agenda Strategy***
 - Reform measure 11: ***Enhancement of institutional capacities for research and innovation***
 - Reform measure 12: ***Facilitate trade through deep interagency cooperation***
 - Reform measure 13: ***Effective implementation of recent legislative changes promoting new investment***
 - Reform measure 14: ***Improve quality and coverage of VET while ensuring linkages with labour market***
 - Reform measure 15: ***Modernise public employment services and increase employment of women, youth and vulnerable people***
 - Reform measure 16: ***Strengthening social protection and social inclusion measures***
 - Reform measure 17: ***Drafting and implementation of a competence based curricula and training of teachers***
-

5. BUDGETARY IMPLICATIONS OF STRUCTURAL REFORMS

Implications of the New Administrative-Territorial Reform:

- The local and regional development shall be characterized by the starting in 2016 of the new territorial reform, which being accompanied by the deepening of the decentralization process, conditions the restructuring of 2016 budget. Such functions as: water and irrigation management, pre-school and pre-university education, forestry and pasture administration, fire fire-fighter service and social service, which till the end of 2015 fiscal year are under different line ministries, starting from 2016 budget will be transferred into the 61 new municipalities. As a consequence of this decentralization process, the new municipalities will have ALL 7.5 billion more than the previous year. This budget increase is almost 64% of their whole unconditional transfer for 2015 budget. The local budget, only for 2016, will be 1.1% of GDP higher than 2013 budget, considering that during the last decade it has been increased by 0.1-0.4% of GDP. Moreover, the local and regional development for 2016 budget is also being supported by the Regional Development Fund, which has proved itself as a successful financing scheme. This fund, amounting to ALL 10 billion for 2016 budget, will directly benefit the local government units. The Governments' major objectives regarding the implementation of the new territorial division and the renaissance of cities and other development centers, will be strongly supported by the financing scheme of the Regional Development Fund.

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The preparation of the Economic Reform Program for 2016-2018 has been subject to a wide national working process including the following Ministries, National Agencies and public bodies; Ministry of Economic Development, Tourism, Trade and Entrepreneurship, Ministry of Finances, Bank of Albania, Ministry of Transport and Infrastructure, Ministry of Urban Development, Ministry of Energy and Industry, Ministry of Agriculture, Rural Development and Water Administration, Ministry of Social Welfare and Youth, Minister for Public Administration and Innovation, Ministry of European Integration, Ministry of Justice, Ministry of Environment, Ministry of Education and Sport, Ministry of Foreign Affairs and the Prime Minister's Office.

Since 2015 The Ministry of Economic Development, Tourism, Trade and Entrepreneurship (MEDTTE) acts as National Coordinator for ERP Preparation. MEDTTE worked closely with the official technical ERP Coordinators, appointed by each of the above mentioned institutions, on the preparation of ERP 2016-2018. National Coordinators were the focal points, responsible for managing the process of priority selection and formulation within their institutions and continuous communication on the progress of the work with the MEDTTE as central coordinator. In addition to the ERP coordinators managing the drafting process for each ministry area, there were also Senior Level ERP Coordinators (Deputy Ministers, Chiefs of Cabinet etc.), who ensured the political endorsement of the priority reforms, by discussing them with the decision making levels of respective institutions.

Since October 2015, three workshops were organized with the presence and support of OECD and EU, aiming to firstly present the new guidelines and ERP 2016-2018 process, and further assist the priority selection and formulation process. These workshops served as technical discussion fora among the national institutions involved in the drafting of ERP 2016-2018 and the OECD.

Several working meetings were held with the ministries and national institutions involved in ERP drafting, chaired by MEDTTE. The purpose was to discuss and agree the reform measures selected and elaborated, and also to reflect technical proposals and suggestions provided by OECD/EU Delegation.

Another inter institutional platform which contributed and was directly involved in the ERP drafting process and national consultation process, is the mechanism for the Integrated Sectorial Management.

A total of four Integrated Policy Management Groups (IPMG) have been established¹² in four pilot sectors in Albania: Integrated Water Management; Employment and Social sector; Competitiveness and Innovation; Good Governance and Public Administration. IPMGs are inter institutional/agency structures which will lead and manage on a continuous and systematic basis, the development, implementation and monitoring of sector reforms in Albania and will be coordinated centrally by the Prime Minister's Office.

The EU technical assistance on IPMGs, served as another support during ERP 2016-2018 drafting process, in addition to OECD assistance. Experts working in each of the four sectors were consulted by the national stakeholders and were asked to provide inputs during the selection and formulation process of the reform measures.

Development and Integration Partners were invited in a consultation roundtable, on January 13th, 2016 and were presented the medium-term macroeconomic and fiscal policy framework and the structural reforms for 2016-2018. Their detailed feedback on the content of the ERP Agenda was reflected accordingly by the responsible national institutions in Albania.

¹² In full accordance with the Decision of the Council of Ministers No. 129 dated 21.09.2015 "On taking institutional and operational measures of the implementation of a sectoral approach and establishment of the integrated policy management groups"

ERP 2016-2018 will be presented to the national Parliamentary Commissions: Commission for Economy and Finance and Commission for Productive Activities, Trade and Environment. The respective meetings will be scheduled for the first week of February, according to the working calendars of both Commissions.

SUMMARY DATA

Annex 1

Table 1a: Macroeconomic prospects

	ESA Code	Year 2014	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
		Level (bn €)	Rate of change				
1. Real GDP at market prices	B1*g	9.607	2.0	2.6	3.4	3.9	4.2
2. GDP at market prices	B1*g	9.628	3.7	3.2	5.9	7.0	7.5
Components of real GDP							
3. Private consumption expenditure	P3	7.477	3.4	-3.3	2.9	2.9	3.2
4. Government consumption expenditure	P3	1.060	7.3	2.6	2.0	0.4	1.5
5. Gross fixed capital formation	P51	2.465	-2.9	8.8	12.0	8.8	6.6
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P5 3	0.372	25.5	0.0	0.0	0.0	0.0
7. Exports of goods and services	P6	3.419	0.5	3.9	6.4	5.9	6.7
8. Imports of goods and services	P7	5.186	3.1	-3.5	8.9	5.4	4.7
Contribution to real GDP growth							
9. Final domestic demand		11.0	2.7	-0.2	5.5	4.7	4.5
10. Change in inventories and net acquisition of valuables	P52+P5 3	0.4	0.8	0.0	0.0	0.0	0.0
11. External balance of goods/services	B11	-1.8	-1.5	2.7	-2.2	-0.8	-0.3

Table 1b: Price developments

		Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. GDP deflator	%, yoy	1.6	0.6	2.5	3.0	3.1
2. Private consumption deflator	%, yoy	1.5	1.3	2.6	3.2	3.4
3. HICP	%, yoy	:	:	:	:	:
4. National CPI change	%, yoy	1.6	1.8	2.3	2.7	3.0
5. Public consumption deflator	%, yoy	-1.0	0.5	1.0	1.3	1.4
6. Investment deflator	%, yoy	1.5	1.5	2.5	2.5	2.5
7. Export price deflator (goods & services)	%, yoy	-18.2	-1.5	1.5	1.5	1.5
8. Import price deflator (goods & services)	%, yoy	-11.6	1.0	1.5	1.5	1.5

Table 1c: Labour markets developments

	ESA Code	Year 2014	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
		Level	Rate of change				
1. Population (thousands)			2,894.5	2,908.9	2,923.5	2,938.1	2,952.8
2. Population (growth rate in %)			-0.1	0.5	0.5	0.5	0.5
3. Working-age population (persons) ¹³			1,991.3	1,999.8	2,008.3	2,016.9	2,025.5
4. Participation rate			61.5	62.3	63.5	64.9	65.8
5. Employment, persons ¹⁴			1,006.1	1,030.6	1,073.2	1,120.3	1,158.0
6. Employment, hours worked ¹⁵			163.9	164.0	164.0	164.0	164.0
7. Employment (growth rate in %)			1.3	2.4	4.1	4.4	3.4
8. Public sector employment (persons)			:	:	:	:	:
9. Public sector employment (growth in %)			:	:	:	:	:
10. Unemployment rate ¹⁶			17.9	17.3	15.9	14.4	13.1
11. Labour productivity, persons ¹⁷		1369.5	0.7	0.1	-0.7	-0.5	0.8
12. Labour productivity, hours worked ¹⁸			2.0	2.5	3.4	3.9	4.2
13. Compensation of employees	D1		:	:	:	:	:

Table 1d: Sectoral balances

% of GDP	ESA code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-10.5	-12.2	-9.6	-10.2	-10.7

¹³ Age group of 15-64 years

¹⁴ Occupied population, domestic concept national accounts definition

¹⁵ National accounts definition

¹⁶ Harmonized definition, Eurostat; levels

¹⁷ Real GDP per person employed

¹⁸ Real GDP per hour worked

of which:						
- Balance of goods and services		-18.2	-18.9	-16.5	-17.9	-17.8
- Balance of primary incomes & transfers		7.3	6.0	6.4	7.2	6.6
- Capital account		0.4	0.6	0.5	0.5	0.4
2. Net lending/borrowing of the private sector	B.9/ EDP B.9	-5.4	-8.2	-7.3	-8.8	-10.2
3. Net lending/borrowing of general government		-5.2	-4.0	-2.2	-1.4	-0.5
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

Table 1e: GDP, investment and gross value added

	ESA Code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	1400.5	1444.7	1530.5	1637.2	1760.2
Investment ratio (% of GDP)		24.6	26.4	28.6	29.8	30.3
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture		2.2	0.8	3.0	3.9	4.3
2. Industry (excluding construction)		2.9	3.9	2.0	3.0	4.9
3. Construction		-7.3	8.4	9.3	5.7	4.8
4. Services		4.3	1.7	2.6	3.6	3.9

Table 1f: External sector developments

Euro mill. unless otherwise indicated	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Current account balance (% of GDP)	-12.9	-10.1	-10.7	-11.2	-11.0
2. Export of goods	0.9	0.9	1.0	1.0	1.2
3. Import of goods	3.1	3.1	3.5	3.8	4.0
4. Trade balance	-2.2	-2.2	-2.6	-2.7	-2.8
5. Export of services	1.9	2.0	2.1	2.3	2.4
6. Import of services	1.6	1.4	1.5	1.6	1.8
7. Service balance	0.3	0.5	0.6	0.6	0.7
8. Net interest payments from abroad	-0.1	-0.2	-0.1	-0.1	-0.1
9. Other net factor income from abroad	0.0	0.0	0.0	0.0	0.0
10. Current transfers	0.7	0.8	0.8	0.8	0.9
11. Of which from EU	:	:	:	:	:
12. Current account balance	-1.3	-1.0	-1.2	-1.3	-1.4
13. Capital and Financial accounts	1.1	1.3	1.3	1.5	1.6
14. Foreign direct investment	0.8	1.0	1.2	1.4	1.4
15. Foreign reserves	2.1	2.4	2.6	2.8	3.0
16. Foreign debt	6.7	:	:	:	:
17. Of which: public	2.7	:	:	:	:
18. O/w: foreign currency denominated	6.6	:	:	:	:
19. O/w: repayments due	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (end-year)	140.1	141.6	141.6	141.6	141.6
21. Exchange rate vis-à-vis EUR (annual average)	140.0	140.1	140.1	140.1	140.1
22. Net foreign saving (lines 21-25: percentages of GDP)	12.9	10.1	10.7	11.2	11.0
23. Domestic private saving	11.1	13.7	14.4	14.7	14.7
24. Domestic private investment	19.5	20.9	22.8	24.4	25.2
25. Domestic public saving	0.7	2.6	3.5	4.0	4.6
26. Domestic public investment	5.1	5.5	5.8	5.4	5.1

Table 1g: Sustainability indicators

	Dimension	Year 2011	Year 2012	Year 2013	Year 2014	Year 2015
1. Current Account Balance	% of GDP	-13.9	-11.0	-10.9	-12.9	-10.1
2. Net International Investment Position	% of GDP	:	:	:	:	:
3. Export market shares	%, yoy	5.1	2.6	15.5	3.5	-4.8
4. Real Effective Exchange Rate ¹⁹	%, yoy	0.4	1.1	-0.3	-2.0	0.6
5. Nominal Unit Labour Costs	%, yoy	-3.1	2.3	12.7	7.9	-0.5
6. Private sector credit flow	% of GDP	3.4	0.5	-0.5	0.6	0.2
7. Private sector debt	% of GDP	:	:	:	:	:
8. General Government Debt	% of GDP	55.2	57.3	62.1	61.4	59.5

¹⁹ Please explain the methodology used (deflators, trade weighing, etc)

Table 2a: General government budgetary prospects

	ESA code	Year	Year	Year	Year	Year	Year	
		2014	2014	2015	2016	2017	2018	
		Level (bn NCU)	% of GDP					
Net lending (B9) by sub-sectors								
1. General government	S13	-72.1	-5.2	-4.0	-2.2	-1.4	-0.5	
2. Central government	S1311	16.9	1.2	2.3	4.8	5.1	5.8	
3. State government	S1312	:	:	:	:	:	:	
4. Local government	S1313	-20.4	-1.5	-1.5	-2.2	-1.6	-1.4	
5. Social security funds	S1314	-68.6	-4.9	-4.8	-4.8	-4.9	-4.8	
General government (S13)								
6. Total revenue	TR	366.7	26.2	26.3	27.4	27.3	27.3	
7. Total expenditure ²⁰	TE	438.8	31.3	30.3	29.6	28.7	27.8	
8. Net borrowing/lending	EDP.B9	-72.1	-5.2	-4.0	-2.2	-1.4	-0.5	
9. Interest expenditure	EDP.D41	40.1	2.9	2.7	2.8	2.9	2.9	
10. Primary balance ²¹		-32.1	-2.3	-1.4	0.6	1.5	2.4	
11. One-off and other temporary measures ²²		:	:	:	:	:	:	
Components of revenues								
12. Total taxes (12 = 12a+12b+12c)		226.3	16.2	16.0	16.4	16.7	16.7	
12a. Taxes on production and imports	D2	172.3	12.3	11.9	12.3	12.4	12.3	
12b. Current taxes on income and wealth	D5	32.5	2.3	2.3	2.4	2.7	2.7	
12c. Capital taxes	D91	21.5	1.5	1.7	1.6	1.6	1.8	
13. Social contributions	D61	69.6	5.0	4.9	5.1	4.9	4.9	
14. Property income	D4	1.4	0.1	0.1	0.3	0.0	0.0	
15. Other (15 = 16-(12+13+14)) ²³		69.4	5.0	5.2	5.6	5.7	5.6	
16 = 6. Total revenue	TR	366.7	26.2	26.3	27.4	27.3	27.3	
p.m.: Tax burden (D2+D5+D61+D91-D995) ²⁴		295.9	21.1	20.9	21.4	21.6	21.6	

²⁰ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

²¹ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

²² A plus sign means deficit-reducing one-off measures

²³ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

²⁴ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2a (continued)

	ESA code	Year	Year	Year	Year	Year	Year	
		2014	2014	2015	2016	2017	2018	
		Level (bn NCU)	% of GDP					
Selected components of expenditures								
17. Collective consumption	P32	123.6	8.8	9.1	8.9	8.4	8.1	
18. Total social transfers	D62 + D63	164.1	11.7	11.3	11.5	11.3	11.1	
18a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0	0.0	
18b. Social transfers other than in kind	D62	164.1	11.7	11.3	11.5	11.3	11.1	
19 = 9. Interest expenditure	EDP.D41	40.1	2.9	2.7	2.8	2.9	2.9	
20. Subsidies	D3	1.6	0.1	0.1	0.1	0.1	0.1	
21. Gross fixed capital formation	P51	71.8	5.1	5.5	5.8	5.4	5.1	
22. Other (22 = 23 - (17+18+19+20+21)) ²⁵		37.8	2.7	1.6	0.6	0.6	0.6	
23 = 7. Total expenditures	TE ²⁶	438.8	31.3	30.3	29.6	28.7	27.8	
p.m. Compensation of public sector employees	D1	80.7	5.8	5.5	5.3	5.0	4.8	

²⁵ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

²⁶ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2b: General government budgetary prospects

	ESA code	Year	Year	Year	Year	Year
		2014	2015	2016	2017	2018
Bn NCU						
Net lending (B9) by sub-sectors						
1. General government	S13	-72.1	-58.2	-34.4	-23.0	-8.6
2. Central government	S1311	16.9	33.4	72.7	83.0	101.7
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-20.4	-22.1	-33.1	-26.1	-25.4
5. Social security funds	S1314	-68.6	-69.5	-74.1	-79.9	-84.9
General government (S13)						
6. Total revenue	TR	366.7	379.2	418.9	446.8	480.4
7. Total expenditure ²⁷	TE	438.8	437.5	453.3	469.8	489.0
8. Net borrowing/lending	EDP.B9	-72.1	-58.2	-34.4	-23.0	-8.6
9. Interest expenditure	EDP.D41	40.1	38.6	43.0	48.0	51.1
10. Primary balance ²⁸		-32.1	-19.6	8.6	24.9	42.5
11. One-off and other temporary measures ²⁹		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		226.3	230.7	250.5	273.1	294.8
12a. Taxes on production and imports	D2	172.3	172.5	188.9	203.0	216.5
12b. Current taxes on income and wealth	D5	32.5	33.2	37.3	43.6	47.0
12c. Capital taxes	D91	21.5	25.0	24.3	26.5	31.3
13. Social contributions	D61	69.6	71.0	77.5	80.2	85.5
14. Property income	D4	1.4	2.0	5.0	0.8	0.8
15. Other (15 = 16-(12+13+14)) ³⁰		69.4	75.5	85.9	92.7	99.3
16 = 6. Total revenue	TR	366.7	379.2	418.9	446.8	480.4
p.m.: Tax burden (D2+D5+D61+D91-D995) ³¹		295.9	301.7	328.0	353.2	380.3

²⁷ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

²⁸ The primary balance is calculated as (EDP.B9, item 8) plus (EDP D41 + FISIM recorded as intermediate consumption, item 9).

²⁹ A plus sign means deficit-reducing one-off measures

³⁰ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).

³¹ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b (continued)

	ESA code	Year	Year	Year	Year	Year
		2014	2015	2016	2017	2018
Bn NCU						
Selected components of expenditures						
17. Collective consumption	P32	123.6	131.8	135.7	138.0	142.1
18. Total social transfers	D62 + D63	164.1	163.4	176.1	184.6	195.0
18a. Social transfers in kind	P31 = D63	0.0	0.0	0.0	0.0	0.0
18b. Social transfers other than in kind	D62	164.1	163.4	176.1	184.6	195.0
19 = 9. Interest expenditure	EDP.D41	40.1	38.6	43.0	48.0	51.1
20. Subsidies	D3	1.6	1.8	1.8	1.6	1.6
21. Gross fixed capital formation	P51	71.8	78.8	88.0	87.9	89.0
22. Other (22 = 23 - (17+18+19+20+21)) ³²		37.8	23.0	8.7	9.7	10.3
23 = 7. Total expenditures	TE ³³	438.8	437.5	453.3	469.8	489.0
p.m. Compensation of public sector employees	D1	80.7	80.0	80.7	82.3	83.8

Table 3: General government expenditure by function

Percentage of GDP	COFOG Code	Year	Year	Year	Year	Year
		2014	2015	2016	2017	2018
1. General public services	1	1.8	2.2	2.4	2.3	2.2
2. Defence	2	0.9	0.7	0.8	0.8	0.8
3. Public order and safety	3	1.6	1.7	1.7	1.6	1.6
4. Economic affairs	4	2.4	2.4	1.9	1.8	1.7
5. Environmental protection	5	0.1	0.1	0.2	0.2	0.3
6. Housing and community amenities	6	1.8	1.4	1.2	1.1	1.1
7. Health	7	2.8	2.8	2.8	3.3	3.7
8. Recreation, culture and religion	8	0.2	0.3	0.2	0.2	0.2
9. Education	9	2.9	2.7	2.5	2.3	2.2
10. Social protection	10	9.1	8.8	9.0	8.5	7.9
Others unclassified		7.8	7.2	7.0	6.6	6.1
11. Total expenditure (item 7 = 23 in Table 2)	TE	31.3	30.3	29.6	28.7	27.8

³² D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8

³³ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 4: General government debt developments

Percentages of GDP	ESA code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Gross debt ³⁴		71.8	72.5	70.9	67.9	63.9
2. Change in gross debt ratio		1.4	0.8	-1.6	-3.0	-4.0
Contributions to change in gross debt						
3. Primary balance ³⁵		2.29	1.4	-0.6	-1.5	-2.4
4. Interest expenditure ³⁶	EDP D.41	2.86	2.7	2.8	2.9	2.9
5. Stock-flow adjustment		-3.8	-3.3	-3.9	-4.4	-4.5
of which:						
- Differences between cash and accruals ³⁷						
- Net accumulation of financial assets ³⁸						
of which:						
- Privatisation proceeds		0.0	0.0	0.0	0.0	0.0
- Valuation effects and other ³⁹		:	:	:	:	:
p.m. implicit interest rate on debt ⁴⁰		4.2	3.8	4.1	4.4	4.6
Other relevant variables						
6. Liquid financial assets ⁴¹						
7. Net financial debt (7 = 1 - 6)						

³⁴ As defined in Regulation 3605/93 (not an ESA concept).

³⁵ Cf. item 10 in Table 2.

³⁶ Cf. item 9 in Table 2.

³⁷ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.

³⁸ Liquid assets, assets on third countries, government controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.

³⁹ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.

⁴⁰ Proxied by interest expenditure divided by the debt level of the previous year.

⁴¹ AF1, AF2, AF3 (consolidated at market value, AF5 (if quoted in stock exchange; including mutual fund shares).

Table 5: Cyclical developments

% of GDP	ESA Code	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. Real GDP growth (%)	B1g	2.0	2.6	3.4	3.9	4.2
2. Net lending of general government	EDP.B.9	-5.2	-4.0	-2.2	-1.4	-0.5
3. Interest expenditure	EDP.D.41	2.9	2.7	2.8	2.9	2.9
4. One-off and other temporary measures ⁴²		:	:	:	:	:
5. Potential GDP growth (%) ⁴³		:	3.0	3.2	3.4	3.7
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		:	-0.8	-0.5	0.0	0.2
7. Cyclical budgetary component		:	-0.3	-0.2	0.0	0.1
8. Cyclically-adjusted balance (2-7)		:	-3.8	-2.1	-1.4	-0.6
9. Cyclically-adjusted primary balance (8-3)		:	-1.1	0.7	1.5	2.3
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
1. GDP growth (% , yoy)					
Previous programme	2.1	3.0	4.0	4.5	:
Latest update	2.0	2.6	3.4	3.9	4.2
Difference (percentage points)	-0.1	-0.4	-0.6	-0.6	:
2. General government net lending (% of GDP)					
Previous programme	-5.1	-3.9	-2.6	-1.3	:
Latest update	-5.2	-4.0	-2.2	-1.4	-0.5
Difference (percentage points)	-0.1	-0.1	0.4	-0.1	:
3. General government gross debt (% of GDP)					
Previous programme	71.8	71.6	68.8	65.6	:
Latest update	71.8	72.5	70.9	68.0	63.9
Difference	0.0	1.0	2.1	2.4	:

Table 7: Long-term sustainability of public finances

Percentages of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure							
of which: age-related expenditures							
- Pension expenditure	5.0%	5.3%	5.6%	5.6%	5.3%	4.8%	5.2%
- Social security pension	5.0%	5.2%	5.4%	5.4%	5.1%	4.6%	5.1%
- Old-age and early pensions	4.2%	4.3%	4.5%	4.6%	4.3%	3.8%	3.9%
- Other pensions (disability, survivors)	0.8%	0.9%	0.9%	0.9%	0.8%	0.9%	1.1%
- Occupational pensions (if in general government)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Pension administrative cost	0.1%	0.1%	0.2%	0.2%	0.2%	0.2%	0.2%
- Health care							
- Long-term care (this was earlier included in the health care)							
Education expenditure							
Other age-related expenditures							
Interest expenditure							
Total revenues							
of which: property income							
of which: from pensions contributions (or social contributions, if appropriate)	3.2%	3.2%	4.7%	5.1%	5.0%	5.0%	5.0%

⁴² A plus sign means deficit-reducing one-off measures

⁴³ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

Pension reserve fund assets	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%
<i>of which: consolidated public pension fund assets (assets other than government liabilities)</i>	0.3%	0.3%	0.3%	0.3%	0.3%	0.4%	0.4%
Assumptions							
Labour productivity growth							
Real GDP growth	5.9%	3.8%	4.5%	4.0%	4.0%	3.3%	3.0%
Participation rate males (aged 20-64)			66.2%	66.2%	66.2%	66.2%	66.2%
Participation rates females (aged 20-64)			49.7%	49.7%	49.7%	49.7%	49.7%
Total participation rates (20-64)			57.9%	57.9%	57.9%	57.9%	57.9%
Unemployment rate			11.8%	11.2%	10.6%	10.0%	10.0%
Population aged 65+ over total population			15.0%	21.2%	24.8%	26.3%	29.6%

Table 7a: General government guarantees

% of GDP	Year 2015	Year 2016
Public guarantees	5.4	5.4
<i>Of which: linked to the financial sector</i>	:	:

Table 8: Basic assumptions on the external economic environment underlying the programme framework

	Dimension	Year 2014	Year 2015	Year 2016	Year 2017	Year 2018
Short-term interest rate ⁴⁴	Annual average	0.6	0	-0.1	0	0.2
Long-term interest rate	Annual average	1.5	0.5	0.7	0.9	1.3
USD/EUR exchange	Annual average	133.24	112	113	113	113
Nominal effective exchange rate	Annual average	:	113.8	113.9	114.1	114.1
Exchange rate vis-à-vis the EUR	Annual average	139.974	140.106 8	140.106 8	140.106 8	140.106 8
Global GDP growth, excluding EU	Annual average	3.7	3.3	3.8	4	4.3
EU GDP growth	Annual average	1.3	1.9	2	2.1	2.2
Growth of relevant foreign markets	Annual average	-0.3	-0.1	0.4	1.6	1.9
World import volumes, excluding EU	Annual average	2.7	0.9	3	4	4.8
Oil prices (Brent, USD/barrel)	Annual average	102.6	54.8	35	45	55

⁴⁴ If necessary, purely technical assumption.

Table 9: Selected indicators on social inclusion

	Data source ⁴⁵	2014	2015	2016	2017	2018
1. Labour market participation rate (%) total (pls indicate age bracket)	e	61.5				
- male	e	72.2				
- female	e	51.3				
2. Employment rate (%) total (please indicate age bracket)	e	50.5				
- male	e	58.0				
- female	e	43.4				
3. Unemployment rate (%) total (please indicate age bracket)	e	17.5				
- male	e	19.2				
- female	e	15.2				
4. Long-term unemployment rate (%) total	e	11.2				
- male	e	11.7				
- female	e	10.7				
5. Youth unemployment (15-24 yrs) rate (%) total	e	39.0				
- male	e	42.5				
- female	e	32.6				
6. Young people (please indicate the age bracket of the available figures) not in employment, education or training (NEET), in %		34.5				
7. Early school leavers, in % (Eurostat definition)	e	26.0				
8. Participation rate in early childhood education and care						
9. GINI coefficient						
10. Inequality of income distribution S80/S20	e					
11. Social protection expenditure in % of GDP	e					
12. Health expenditure in % of GDP	e					
13. At-risk-of-poverty before social transfers, % of the population	e					
14. Poverty rate (Please indicate which data are available for your country)						
15. Poverty gap (Please indicate which data are available for your country)						

⁴⁵ For the indicators marked "e", Eurostat indicators should be available for all enlargement countries.

Table 10.1 Area 2 - Infrastructure

Table 10: Matrix of policy commitments

	2015	2016	2017	2018
Reform measure 1: Further liberalization of the energy market				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in EUR)		-	-	-
B.1 Direct impact on budgetary revenue (in EUR)		-	-	-
B.2 Direct impact on budgetary expenditure (in EUR)		-	-	-
B.3 Possible non-budgetary financing (in EUR)		55,000,000	-	-
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		15,000,000	-	-
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		-		
Reform measure 2: Diversification of energy sources (Gasification)				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)	-	-	-	-
B.3 Possible non-budgetary financing (in EUR)		7,700,000	-	-
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		1,100,000	-	-
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure	-	1,540,000	-	-
Reform measure 3: Feasibility study for construction and upgrade of the Adriatic-Ionian Corridor				
A. Duration of the reform*				
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)		500,000		
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		2,500,000		
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		500,000		
Reform measure 4: Upgrading and construction of Durres Port Infrastructure				
A. Duration of the reform*				
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)		360,000		
B.3 Possible non-budgetary financing (in EUR)		7,300,000		
- B.3.1 Of which committed IPA funding including WBIF				

funding (in EUR)				
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		360,000		
Reform measure 5: Improve the legal and regulatory framework for high speed broadband networks				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in EUR)		n.a.	n.a.	n.a.
B.1 Direct impact on budgetary revenue (in EUR)		n.a.	n.a.	n.a.
B.2 Direct impact on budgetary expenditure (in EUR)		7056	3500	0
B.3 Possible non-budgetary financing (in EUR)		1000	1000	0
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		n.a.	n.a.	n.a.
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		7,056	3,500	0

Table 10.2 Area 3 – Sector Developments

	2015	2016	2017	2018
Reform measure 6: Consolidation and defragmentation of agricultural land				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)	n.a.	n.a.	n.a.	n.a.
B.2 Direct impact on budgetary expenditure (in EUR)	150,000	180,000	200,000	250,000
B.3 Possible non-budgetary financing (in EUR)				
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)				
Total net budgetary impact				
Total impact on budgetary revenue	n.a.	n.a.	n.a.	n.a.
Total impact on budgetary expenditure	150,000	180,000	200,000	250,000
Reform measure 7: Standardization of Tourism Sector				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)		n.a.	n.a.	n.a.
B.2 Direct impact on budgetary expenditure (in EUR)		290,000	11,000	7,000
B.3 Possible non-budgetary financing (in EUR)		25,000	0	0
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		n.a.	n.a.	n.a.
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		315,000	11,000	7,000

Table 10.3 Area 4 – Business environment, corporate governance and reduction of the informal economy

	2015	2016	2017	2018
Reform measure 8: Reduce regulatory burden to business				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)		n.a.	n.a.	n.a.
B.2 Direct impact on budgetary expenditure (in EUR)		872,000	72,000	37,000
B.3 Possible non-budgetary financing (in EUR)		77,000	40,000	40,000
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		n.a.	n.a.	n.a.
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		872,000	72,000	37,000
Reform measure 9: Effective implementation of the National Plan to reduce the level of the NPL				
A. Duration of the reform*		X	X	
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)		n.a.	n.a.	
B.2 Direct impact on budgetary expenditure (in EUR)		25,000	-	
B.3 Possible non-budgetary financing (in EUR)		375,000	187,000	
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		n.a.	n.a.	
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		25,000	-	

Table 10.4 Area 5 – Technological absorption and innovation

	2015	2016	2017	2018
Reform measure 10: Effective implementation of Digital Agenda Strategy				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)		n.a.	n.a.	n.a.
B.2 Direct impact on budgetary expenditure (in EUR)		-	-	-
B.3 Possible non-budgetary financing (in EUR)		345,000	150,000	-
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		n.a.	n.a.	n.a.
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		-	-	0
Reform measure 11: Enhancement of institutional capacities for research and innovation				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)		n.a.	n.a.	n.a.
B.2 Direct impact on budgetary expenditure (in EUR)		1,000	2,500	2,500
B.3 Possible non-budgetary financing (in EUR)		-	-	-
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		n.a.	n.a.	n.a.
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		1,000	2,500	2,500

Table 10.5 Area 6 – Trade integration

	2015	2016	2017	2018
Reform measure 12: Facilitate trade through deep interagency cooperation				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in EUR)				
B.1 Direct impact on budgetary revenue (in EUR)		n.a.	n.a.	n.a.
B.2 Direct impact on budgetary expenditure (in EUR)				
B.3 Possible non-budgetary financing (in EUR)		135,000	135,000	135,000
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		n.a.	n.a.	n.a.
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		-	-	-
Reform measure 13: Effective implementation of recent legislative changes promoting new investment				
A. Duration of the reform*		X	X	

B. Net direct budgetary impact (if any) (in EUR)			
B.1 Direct impact on budgetary revenue (in EUR)		n.a	n.a
B.2 Direct impact on budgetary expenditure (in EUR)		83,000	36,000
B.3 Possible non-budgetary financing (in EUR)		108,000	36,000
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		n.a.	n.a
Total net budgetary impact			
Total impact on budgetary revenue			
Total impact on budgetary expenditure		83,000	36,000

Table 10.6 Area 7 – Employment and labour market

	2015	2016	2017	2018
Reform measure 14: Improve quality and coverage of VET while ensuring linkages with labour market				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in EUR)	- 13,800,000	-13,900,000	-9,400,000	-9,500,000
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)	13,800,000	13,900,000	9,400,000	9,500,000
B.3 Possible non-budgetary financing (in EUR)		6,000,000	9,000,000	9,000,000
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		4,000,000	7,000,000	7,000,000
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure	13,800,000	13,900,000	9,400,000	9,500,000
Reform measure 15: Modernise public employment services and increase employment of women, youth and vulnerable people				
A. Duration of the reform*	X	X	X	X
B. Net direct budgetary impact (if any) (in EUR)	- 16,000,000	- 16,300,000	- 15,400,000	- 15,150,000
B.1 Direct impact on budgetary revenue (in EUR)				
B.2 Direct impact on budgetary expenditure (in EUR)	16,000,000	16,300,000	15,400,000	15,150,000
B.3 Possible non-budgetary financing (in EUR)		9,000,000	10,000,000	10,000,000
- B.3.1 Of which committed IPA funding including WBIF funding (in EUR)		4,000,000	7,000,000	7,000,000
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure	16,000,000	16,300,000	15,400,000	15,150,000

Table 10.7 Area 8 – Fostering social inclusion, combatting poverty and promoting equal opportunities

	2015	2016	2017	2018
Reform measure 16: Strengthening social protection and social inclusion measures				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact (if any) (in €)				
B.1 Direct impact on budgetary revenue (in €)		-	-	-
B.2 Direct impact on budgetary expenditure (in €)		985,000,000	1,030,000,000	1,080,000,000
B.3 Possible non-budgetary financing (in €)		-	-	-
- B.3.1 Of which committed IPA funding including WBIF funding (in €)		-	-	-
Total net budgetary impact				
Total impact on budgetary revenue				
Total impact on budgetary expenditure		985,000,000	1,030,000,000	1,080,000,000
Reform measure 17: Drafting and implementation of a competence based curricula and training of teachers				
A. Duration of the reform*		X	X	X
B. Net direct budgetary impact if any (in €)				
B.1. Indirect impact on budgetary revenue (in €)				
B.2. Direct impact on budgetary expenditure (in €)		920,469	926,649	1,000,405
B.3 Possible non-budgetary financing (in €)				
B.3.1. Of which committed IPA funding including WBIF funding (in €)				
Total net budgetary impact				
Total impact on budgetary revenue		-	-	-
Total impact on budgetary expenditure		920,469	926,649	1,000,405

Table 11: Timetable of structural reform measures

Reform measure 1: Further liberalization of the energy market

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Improving the legal framework of the power and gas sector - Completion of 400 kV interconnection line Albanian-Kosovo. - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia) 	<ul style="list-style-type: none"> - Improving the legal framework of the power and gas sector - Completion of 400 kV interconnection line Albanian-Kosovo. - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia) 	<ul style="list-style-type: none"> - Improving the legal framework of the power and gas sector - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia) 	<ul style="list-style-type: none"> - Improving the legal framework of the power and gas sector - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia)
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Improving the legal framework of the power and gas sector - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia) 	<ul style="list-style-type: none"> - Improving the legal framework of the power and gas sector - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia) 	<ul style="list-style-type: none"> - Improving the legal framework of the power and gas sector - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia) 	<ul style="list-style-type: none"> - Improving the legal framework of the power and gas sector - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia)
Q1 2018	Q2 2018	Q3 2018	Q4 2018
<ul style="list-style-type: none"> - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia) 	<ul style="list-style-type: none"> - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia) 	<ul style="list-style-type: none"> - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia) 	<ul style="list-style-type: none"> - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia)

Reform measure 2: Diversification of energy sources (Gasification)

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Preparation of the Gas Master Plan for Albania and project Identification Plan (Consultant COWI-IPF). - Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector". 	<ul style="list-style-type: none"> - Preparation of the Gas Master Plan for Albania and project Identification Plan (Consultant COWI-IPF). - Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector". 	<ul style="list-style-type: none"> - Preparation of the Gas Master Plan for Albania and project Identification Plan (Consultant COWI-IPF). - Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector". 	<ul style="list-style-type: none"> - Approval of the Gas Master Plan for Albania and project Identification Plan (Consultant COWI-IPF). - Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector".
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector". 	<ul style="list-style-type: none"> - Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector". 	<ul style="list-style-type: none"> - Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector". 	<ul style="list-style-type: none"> - Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector".
Q1 2018	Q2 2018	Q3 2018	Q4 2018

- Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector".	- Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector".	- Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector".	- Implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector".
---	---	---	---

Reform measure 3: Feasibility study for construction and upgrade of the Adriatic-Ionian Corridor

Q1 2016	Q2 2016	Q3 2016	Q4 2016
- Tendering of project preparation services	- Inception phase of feasibility study and feasibility study	- undertake environmental and social analysis of the route investment plan	-
Q1 2017	Q2 2017	Q3 2017	Q4 2017
-	-	-	-
Q1 2018	Q2 2018	Q3 2018	Q4 2018
-	-	-	-

Reform measure 4: Upgrading and construction of Durres Port Infrastructure

Q1 2016	Q2 2016	Q3 2016	Q4 2016
	- Construction of the internal railway network - Deepening of the port basin - Rehabilitation of the 7 th and 8 th quays	- Construction of the internal railway network - Deepening of the port basin - Rehabilitation of the 7 th and 8 th quays	- Construction of the internal railway network - Deepening of the port basin - Rehabilitation of the 7 th and 8 th quays
Q1 2017	Q2 2017	Q3 2017	Q4 2017
	- Rehabilitation of the 7 th and 8 th quays	- Rehabilitation of the 7 th and 8 th quays	- Rehabilitation of the 7 th and 8 th quays
Q1 2018	Q2 2018	Q3 2018	Q4 2018

Reform measure 5: Improve the legal and regulatory framework for high speed broadband networks

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Undertake effective prior consultation with private sector and other stakeholders on the draft law "On the development of high-speed electronic communication networks and the provision of the right of way" - Prior consultation on spectrum policy issues with different stakeholders regarding the future developments on broadband focussed on LTE, mobile broadband networks 	<ul style="list-style-type: none"> - Review the draft law based on feedback of effective consultation and submit the draft law for the approval by CoM - Drafting the spectrum policy paper document to promote developments and investments in broadband connectivity and coverage through LTE networks 	<ul style="list-style-type: none"> - Drafting the spectrum policy paper document to promote developments and investments in broadband connectivity and coverage through LTE networks - Undertake effective consultation with private sector and other stakeholders on spectrum policy paper; 	<ul style="list-style-type: none"> - Approval of the new law on law "On the development of high-speed electronic communication networks and the provision of the right of way" - Approval of spectrum policy
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Drafting bylaws complete the regulatory measures based on the primary law adopted "On the development of high-speed electronic communication networks and the provision of the right of way". - Increase cooperation between different institutions working on utility regulation; increase the transparency of public investments and coordination for civil works for broadband connectivity. - Capacity building to implement the legal and regulatory framework of the reform. 	<ul style="list-style-type: none"> - Consultation process with the main stakeholders of the sub legal acts for an effective implementation of the new legal framework; - Increase cooperation between different institutions working on utility regulation; increase the transparency of public investments and coordination for civil works for broadband connectivity. - Capacity building to implement the legal and regulatory framework of the reform 	<ul style="list-style-type: none"> - Approval of sub legal acts; - Increase cooperation between different institutions working on utility regulation; increase the transparency of public investments and coordination for civil works for broadband connectivity. - Capacity building to implement the legal and regulatory framework of the reform. 	<ul style="list-style-type: none"> - Permanent monitoring of the impact of the reform.
Q1 2018	Q2 2018	Q3 2018	Q4 2018
<ul style="list-style-type: none"> - Review of the action plan of National Broadband Plan adopted on 2013, identify the actions needed to be undertaken for a continuous and sustainability developments for broadband connectivity and future developments. - Permanent monitoring of the 	<ul style="list-style-type: none"> - Undertake effective prior consultation with private sector and other stakeholders on the new action plan for broadband and the future developments in broadband ecosystem; - Establish partnership with potential investors, notably international agencies 	<ul style="list-style-type: none"> - Approve the new action on broadband development - Establish partnership with potential investors, notably international agencies supporting country development. - Permanent monitoring of the impact of the reform 	<ul style="list-style-type: none"> - Permanent monitoring of the impact of the reform

impact of the reform	<ul style="list-style-type: none"> - supporting country development - Permanent monitoring of the impact of the reform 		
----------------------	--	--	--

Reform measure 6: Consolidation and defragmentation of agricultural land

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Follow-up of the process of Land Information System and its integration to GIS (Fieri and Berati) - Adoption of the OP-LC 	<ul style="list-style-type: none"> - Follow-up of the process of Land Information System and its integration to GIS (Fieri and Berati) - Starting the preparations for the establishment of the institutional/organizational framework of LC and work for ensuring necessary funding. 	<ul style="list-style-type: none"> - Follow-up of the process of Land Information System and its integration to GIS (Fieri and Berati) - Starting the preparations for the establishment of the institutional/organizational framework of LC and work for ensuring necessary funding. 	<ul style="list-style-type: none"> - Follow-up of the process of Land Information System and its integration to GIS (Fieri and Berati) - Starting the preparations for the establishment of the institutional/organizational framework of LC and work for ensuring necessary funding.
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Setting up the Land Consolidation unit in the Ministry of Agriculture, Rural Development and Water Administration and organize work for the design of the Law on Land Consolidation as well as necessary amendments of the existing laws (The law no. 8337/1998 "On the Transfer of Ownership of Agricultural Land, Forests and Pastures", Article.5.) etc. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Setting up the Land Consolidation unit in the Ministry of Agriculture, Rural Development and Water Administration and organize work for the design of the Law on Land Consolidation as well as necessary amendments of the existing laws (The law no. 8337/1998 "On the Transfer of Ownership of Agricultural Land, Forests and Pastures", Article.5.) etc. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Development of a communication plan and conducting a targeted national campaign that will focus particularly on the local media in order to present real positive experiences of farmers from the completed consolidation projects. - Prepare annual work program - The elaboration of the training program and training materials. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Development of a communication plan and conducting a targeted national campaign that will focus particularly on the local media in order to present real positive experiences of farmers from the completed consolidation projects. - Prepare annual work program - The elaboration of the training program and training materials. - Follow-up of the process of Land Information System and its integration to GIS
Q1 2018	Q2 2018	Q3 2018	Q4 2018
<ul style="list-style-type: none"> - Implementation of pilot projects on land regulation in select municipalities. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Implementation of pilot projects on land regulation in select municipalities. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Implementation of pilot projects on land regulation in select municipalities. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Implementation of pilot projects on land regulation in select municipalities. - Follow-up of the process of Land Information System and its integration to GIS
Q1 2016	Q2 2016	Q3 2016	Q4 2016

<ul style="list-style-type: none"> - Follow-up of the process of Land Information System and its integration to GIS (Fieri and Berati) - Adoption of the OP-LC 	<ul style="list-style-type: none"> - Follow-up of the process of Land Information System and its integration to GIS (Fieri and Berati) - Starting the preparations for the establishment of the institutional/organizational framework of LC and work for ensuring necessary funding. 	<ul style="list-style-type: none"> - Follow-up of the process of Land Information System and its integration to GIS (Fieri and Berati) - Starting the preparations for the establishment of the institutional/organizational framework of LC and work for ensuring necessary funding. 	<ul style="list-style-type: none"> - Follow-up of the process of Land Information System and its integration to GIS (Fieri and Berati) - Starting the preparations for the establishment of the institutional/organizational framework of LC and work for ensuring necessary funding.
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Setting up the Land Consolidation unit in the Ministry of Agriculture, Rural Development and Water Administration and organize work for the design of the Law on Land Consolidation as well as necessary amendments of the existing laws (The law no. 8337/1998 "On the Transfer of Ownership of Agricultural Land, Forests and Pastures", Article.5.) etc. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Setting up the Land Consolidation unit in the Ministry of Agriculture, Rural Development and Water Administration and organize work for the design of the Law on Land Consolidation as well as necessary amendments of the existing laws (The law no. 8337/1998 "On the Transfer of Ownership of Agricultural Land, Forests and Pastures", Article.5.) etc. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Development of a communication plan and conducting a targeted national campaign that will focus particularly on the local media in order to present real positive experiences of farmers from the completed consolidation projects. - Prepare annual work program - The elaboration of the training program and training materials. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Development of a communication plan and conducting a targeted national campaign that will focus particularly on the local media in order to present real positive experiences of farmers from the completed consolidation projects. - Prepare annual work program - The elaboration of the training program and training materials. - Follow-up of the process of Land Information System and its integration to GIS
Q1 2018	Q2 2018	Q3 2018	Q4 2018
<ul style="list-style-type: none"> - Implementation of pilot projects on land regulation in select municipalities. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Implementation of pilot projects on land regulation in select municipalities. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Implementation of pilot projects on land regulation in select municipalities. - Follow-up of the process of Land Information System and its integration to GIS 	<ul style="list-style-type: none"> - Implementation of pilot projects on land regulation in select municipalities.. - Follow-up of the process of Land Information System and its integration to GIS

Reform measure 7: Standardization of Tourism Sector

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Preparation of the curricula for vocational training of tourist guides in collaboration with the University of Tirana and the Guides Association supported by WFTGA - Establishment of Tourism Inspectorate 	<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Preparation of the curricula for vocational training of tourist guides in collaboration with the University of Tirana and the Guides Association supported by WFTGA - Establishment of Tourism Inspectorate 	<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Preparation of the curricula for vocational training of tourist guides in collaboration with the University of Tirana and the Guides Association supported by WFTGA - Establishment of Tourism Inspectorate 	<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Preparation of the curricula for vocational training of tourist guides in collaboration with the University of Tirana and the Guides Association supported by WFTGA - Establishment of Tourism Inspectorate
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Ongoing monitoring and tracking of consumer complaints 	<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Ongoing monitoring and tracking of consumer complaints 	<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Ongoing monitoring and tracking of consumer complaints 	<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Ongoing monitoring and tracking of consumer complaints
Q1 2018	Q2 2018	Q3 2018	Q4 2018
<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Ongoing monitoring and tracking of consumer complaints 	<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Ongoing monitoring and tracking of consumer complaints 	<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Ongoing monitoring and tracking of consumer complaints 	<ul style="list-style-type: none"> - Implementation of process steps for licensing of tourist agencies and tour operators, classification of accommodation facilities and certification of tourist guides - Ongoing monitoring and tracking of consumer complaints

Reform measure 8: Reduce regulatory burden to business

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Making NBC fully operational; simplifying the procedures and reducing the time for services delivered by NBC 	<ul style="list-style-type: none"> - Making NBC fully operational; simplifying the procedures and reducing the time for services delivered by NBC - Facilitate the construction permit practices through the simplification of procedures; - Develop IT solution to enable to 	<ul style="list-style-type: none"> - Making NBC fully operational; simplifying the procedures and reducing the time for services delivered by NBC - Facilitate the construction permit practices through the simplification of procedures; - Develop IT solution to enable to 	<ul style="list-style-type: none"> - Review the existing licenses and permits issued by NBC (former NLC), with a view to abolish cumbersome requirements - Implementation of the recommendations of the report on authorisations; - Develop IT solution to enable to

	<p>ensure effective e-permit service through the one stop shop for construction permits;</p> <ul style="list-style-type: none"> - Review the existing licenses and permits issued by NBC (former NLC), with a view to abolish cumbersome requirements 	<p>ensure effective e-permit service through the one stop shop for construction permits;</p> <ul style="list-style-type: none"> - Review the existing licenses and permits issued by NBC (former NLC), with a view to abolish cumbersome requirements 	<p>ensure effective e-permit service through the one stop shop for construction permits;</p>
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Prepare recommendations for legislative changes for licenses and permits, Introduce e-licensing platform for all licences, permits and authorisation, where feasible. 	<ul style="list-style-type: none"> - Prepare recommendations for legislative changes for licenses and permits, Introduce e-licensing platform for all licences, permits and authorisation, where feasible. 	<ul style="list-style-type: none"> - Trainings for the staff of Agency of Territorial Development and 61 municipalities; - Permanent monitoring of the reform activities implementation. 	<ul style="list-style-type: none"> - Trainings for the staff of Agency of Territorial Development and 61 municipalities; - Permanent monitoring of the reform activities implementation.
Q1 2018	Q2 2018	Q3 2018	Q4 2018
<ul style="list-style-type: none"> - Introduce e-licensing platform for all licences, permits and authorisation, where feasible; - Trainings for the staff of Agency of Territorial Development and 61 municipalities; 	<ul style="list-style-type: none"> - Introduce e-licensing platform for all licences, permits and authorisation, where feasible; - Trainings for the staff of Agency of Territorial Development and 61 municipalities; 	<ul style="list-style-type: none"> - Trainings for the staff of Agency of Territorial Development and 61 municipalities; - Permanent monitoring of the reform activities implementation. 	<ul style="list-style-type: none"> - Trainings for the staff of Agency of Territorial Development and 61 municipalities; - Permanent monitoring of the reform activities implementation.

Reform measure 9: Effective implementation of the National Plan to reduce the level of the NPL

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Conduct regulatory changes by the BoA to revise the terminology on write-offs - approve a new Bankruptcy Law and respective guidelines complaint 	<ul style="list-style-type: none"> - Conduct regulatory changes by the BoA to revise the terminology on write-offs - approve a new Bankruptcy Law and respective guidelines complaint 	<ul style="list-style-type: none"> - facilitate collateral execution inter alia by introducing amendments in the Code of Civil Procedures - reduce NPLs through use of out-of-court debt restructuring - upgrade the Credit Registry 	<ul style="list-style-type: none"> - reduce NPLs through use of out-of-court debt restructuring - upgrade the Credit Registry - continues monitoring of the implementation of the NPL AP
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Increase public awareness on Bankruptcy practice and train the inspectors of Supervisory Bankruptcy Agency 	<ul style="list-style-type: none"> - Increase public awareness on Bankruptcy practice and train the inspectors of Supervisory Bankruptcy Agency - approve legal changes on Securing Charges and Registration of Immovable Properties 	<ul style="list-style-type: none"> - Increase public awareness on Bankruptcy practice and train the inspectors of Supervisory Bankruptcy Agency - approve legal changes on Securing Charges and Registration of Immovable Properties - prevent the accumulation of potential future NPLs through 	<ul style="list-style-type: none"> - Increase public awareness on Bankruptcy practice and train the inspectors of Supervisory Bankruptcy Agency - prevent the accumulation of potential future NPLs through encouraging early credit restructuring - continues monitoring of the implementation of the NPL NP.

		<ul style="list-style-type: none"> encouraging early credit restructuring - continuous monitoring of the implementation of the NPL NP. 	
Q1 2018	Q2 2018	Q3 2018	Q4 2018

Reform measure 10: Effective implementation of Digital Agenda Strategy

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Undertake effective prior consultation with private sector and academia on the policy framework; - Increase innovation skills for SMEs by using ICT; - Implementation of the "Innovation HUB" project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities. 	<ul style="list-style-type: none"> - Approval of the action plan "Policy framework for innovation 2016-2020" compliant with OECD recommendations in May 2015, in the framework of "Triple helix"; - Increase innovation skills for SMEs by using ICT; - Implementation of the "Innovation HUB" project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities. 	<ul style="list-style-type: none"> - Approval of the action plan "Policy framework for innovation 2016-2020" compliant with OECD recommendations in May 2015, in the framework of "Triple helix"; - Increase innovation skills for SMEs by using ICT; - Implementation of the "Innovation HUB" project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities. 	<ul style="list-style-type: none"> - Institutionalize the monitoring structures and instruments; - Increase innovation skills for SMEs by using ICT; - Implementation of the "Innovation HUB" project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities.
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Institutionalize the monitoring structures and instruments; - Increase innovation skills for SMEs by using ICT; - Implementation of the "Innovation HUB" project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities. 	<ul style="list-style-type: none"> - Increase innovation skills for SMEs by using ICT; - Implementation of the "Innovation HUB" project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities. 	<ul style="list-style-type: none"> - Increase innovation skills for SMEs by using ICT; - Implementation of the "Innovation HUB" project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities; - Permanent monitoring of the impact of the strategy. 	<ul style="list-style-type: none"> - Increase innovation skills for SMEs by using ICT; - Implementation of the "Innovation HUB" project by creating an incubator for ICT Start-ups initiatives, providing a set of business services from advising to networking and partnership opportunities; - Permanent monitoring of the impact of the strategy.
Q1 2018	Q2 2018	Q3 2018	Q4 2018

<ul style="list-style-type: none"> - Increase innovation skills for SMEs by using ICT; - Establish partnership with potential investors, notably international agencies supporting country development, with multinational companies, venture capital funds, investment and development banks. 	<ul style="list-style-type: none"> - Increase innovation skills for SMEs by using ICT; - Establish partnership with potential investors, notably international agencies supporting country development, with multinational companies, venture capital funds, investment and development banks. 	<ul style="list-style-type: none"> - Increase innovation skills for SMEs by using ICT; - Establish partnership with potential investors, notably international agencies supporting country development, with multinational companies, venture capital funds, investment and development banks. 	<ul style="list-style-type: none"> - Increase innovation skills for SMEs by using ICT.
--	--	--	---

Reform measure 11: Enhancement of institutional capacities for research and innovation

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Scientific Research; - Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Funding in Higher Education. 	<ul style="list-style-type: none"> - Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Scientific Research; - Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Funding in Higher Education. 	<ul style="list-style-type: none"> - Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Scientific Research; - Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Funding in Higher Education. 	<ul style="list-style-type: none"> - Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Scientific Research; - Drafting and adopting the necessary implementing legal acts for the establishment of the National Agency for Funding in Higher Education.
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Strengthen the capacities for the Agency for Scientific Research; - Strengthen the capacities for National Agency for Funding of Higher Education. 	<ul style="list-style-type: none"> - Strengthen the capacities for the Agency for Scientific Research; - Strengthen the capacities for National Agency for Funding of Higher Education. 	<ul style="list-style-type: none"> - Strengthen the capacities for the Agency for Scientific Research; - Strengthen the capacities for National Agency for Funding of Higher Education. 	<ul style="list-style-type: none"> - Strengthen the capacities for the Agency for Scientific Research; - Strengthen the capacities for National Agency for Funding of Higher Education.
Q1 2018	Q2 2018	Q3 2018	Q4 2018
<ul style="list-style-type: none"> - Strengthen the capacities for the Agency for Scientific Research; - Strengthen the capacities for National Agency for Funding of Higher Education. 	<ul style="list-style-type: none"> - Strengthen the capacities for the Agency for Scientific Research; - Strengthen the capacities for National Agency for Funding of Higher Education. 	<ul style="list-style-type: none"> - Strengthen the capacities for the Agency for Scientific Research; - Strengthen the capacities for National Agency for Funding of Higher Education. 	<ul style="list-style-type: none"> - Strengthen the capacities for the Agency for Scientific Research; - Strengthen the capacities for National Agency for Funding of Higher Education.

Reform measure 12: Facilitate trade through deep interagency cooperation

Q1 2016	Q2 2016	Q3 2016	Q4 2016

<ul style="list-style-type: none"> - Introduce risk management in Albanian Food Safety Agency and develop the management methodology and database tools for the Albanian Food Safety Agency. 	<ul style="list-style-type: none"> - Introduce risk management in Albanian Food Safety Agency and develop the management methodology and database tools for the Albanian Food Safety Agency. 	<ul style="list-style-type: none"> - Issuance of a Minister's Order for the adoption of the risk management policy for food inspection and the establishment of a risk management unit within the Albanian Food Agency. 	<ul style="list-style-type: none"> - Simplify documentary sanitary and phytosanitary requirement; - Issuance of the instruction of the Minister of Finance for the implementation of AEO.
Q1 2017	Q2 2017	Q3 2017	Q4 2017
<ul style="list-style-type: none"> - Facilitate the exchange of information with Kosovo for most treaded agriculture products; - Simplify documentary sanitary and phytosanitary requirement. 	<ul style="list-style-type: none"> - Facilitate the exchange of information with Kosovo for most treaded agriculture products; - Simplify documentary sanitary and phytosanitary requirement. 	<ul style="list-style-type: none"> - Simplify documentary sanitary and phytosanitary requirement. 	<ul style="list-style-type: none"> - Simplify documentary sanitary and phytosanitary requirement.
Q1 2018	Q2 2018	Q3 2018	Q4 2018
<ul style="list-style-type: none"> - Introduce an all- inclusive approach with regard to the simplified customs procedures; - Promote AEO concept with private sector through a series of B2B meetings; - Increase the capacities of customs administration to implement AEO practice and liaise with the best practices in the region. 	<ul style="list-style-type: none"> - Introduce an all-inclusive approach with regard to the simplified customs procedures; - Promote AEO concept with private sector through a series of B2B meetings; - Increase the capacities of customs administration to implement AEO practice and liaise with the best practices in the region. 	<ul style="list-style-type: none"> - Promote AEO concept with private sector through a series of B2B meetings; - Increase the capacities of customs administration to implement AEO practice and liaise with the best practices in the region; - Assess on regular basis the efficiency of the application of AEO practice. 	<ul style="list-style-type: none"> - Increase the capacities of customs administration to implement AEO practice and liaise with the best practices in the region; - Assess on regular basis the efficiency of the application of AEO practice.

Reform measure 13: Effective implementation of recent legislative changes promoting new investment

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Adopt a specific guideline and simplified manual on the implementation of the legal package for strategic investment; - Adopt the instruction on rules of application of economic development areas in private property; - Adopt the regulation for the functioning of the technical and economic development areas - Adopt the rules of procedures of the Committee for Strategic Investment. 	<ul style="list-style-type: none"> - Adopt a specific guideline and simplified manual on the implementation of the legal package for strategic investment; - Train AIDA staff and operational working groups from line ministries on the legislative requirements for strategic investment; - Adopt the regulation for the functioning of the technical and economic development areas - Adopt the instruction on rules of application of economic development areas in private property; 	<ul style="list-style-type: none"> - Train AIDA staff and operational working groups from line ministries on the legislative requirements for strategic investment; - Adopt the rules of procedures of the Committee for Strategic Investment; - Establish the PPP electronic registry. 	<ul style="list-style-type: none"> - Train AIDA staff and operational working groups from line ministries on the legislative requirements for strategic investment; - Adopt the rules of procedures of the Committee for Strategic Investment; - Establish the PPP electronic registry.

	- Adopt the rules of procedures of the Committee for Strategic Investment.		
Q1 2017	Q2 2017	Q3 2017	Q4 2017
- Establish the network of existing strategic investor and potential future investors.	- Establish the network of existing strategic investor and potential future investors.	- Establish the electronic registry of strategic investors; - Assess the impact of the law on strategic investment within 2017.	- Assess the impact of the law on strategic investment within 2017.
Q1 2018	Q2 2018	Q3 2018	Q4 2018

Reform measure 14: Improve quality and coverage of VET while ensuring linkages with labour market

Q1 2016	Q2 2016	Q3 2016	Q4 2016
<ul style="list-style-type: none"> - Discussions on the draft law on VET with stakeholders, particularly businesses and their role in boards, professional activities and means of providing dual education - VET law consultations with line ministries - Organic restructuring of vocational high schools - Drafting of priority focus for VET - Further implementation of base training of teachers/instructors of VET - Identification and preparation of database for private VET providers - Revision of national list of professions 	<ul style="list-style-type: none"> - Approval of VET law by the parliament - Drafting of bylaws for establishment of Sectoral Committees for Skills, vocational education organisation, dual education - Promotional campaign for education and vocational education - Skills Olympiads - Drafting of standards and vocational qualifications for vocational schools and unified vocational programs - Drafting of curricula and training of teachers for implementation of dual education - Further implementation of base program for teachers/instructors of VET - Preparation of draft decision of council of ministers for adoption of the national list of professions (revised) - Drafting of manual for the internal evaluation of schools 	<ul style="list-style-type: none"> - Preparation of bylaws for the management of the VET system - Completion of investment in the infrastructure of public schools and vocational centers - Improving the educational infrastructure to increase accessibility for vulnerable groups - Further implementation of the program of basic training of teachers / instructors VET - Development of new curricula for new directions VET - Conclusion of agreements with companies for admission of students in professional practices - Conclusion of agreements with companies for piloting dual education in the tourism sector - Conducting self-assessment and public schools and vocational centers - Revision of a National Qualifications Framework - Increased enrolment in VET programs at xx% compared to the previous year 	<ul style="list-style-type: none"> - Implementation of institutional restructuring at the central level to ensure the management of VET in line with labor market needs - Consultation on the draft of the Albanian Framework of the qualifications (MAS and MoSWY) with stakeholders - Submission for approval of the Law of the Albanian Qualification Framework - Further implementation of the basic program for the training of teachers / instructors VET (6% of teachers / instructors trained by the end of 2016) - The creation of the monitoring system for participation in the VET programs to Roma and Egyptian citizens - Unification of public vocational training programs - Establishment of traceability system for the employment of graduates from education programs and vocational training
Q1 2017	Q2 2017	Q3 2017	Q4 2017

<ul style="list-style-type: none"> - Review of existing programs and develop new programs VET in line with labor market needs - Preparation of the institutional and legal basis for the establishment of four centers Multifunctional VET - Reorganization of VET providers at the regional level - The creation of the National Council of VET - Establishment of Committees Sector Skills - Planning needs for professional qualifications at national and regional level including 5 QualificationS Albanian Framework (AQF) - Recording data on Roma and Egyptian citizens benefit from VET programs - Inclusion of Roma and Egyptians in VET programs 	<ul style="list-style-type: none"> - Monitoring the process of certification of VET programs of public and private - Improvement of VET institutions sënëpërmjet increase investment by 5% - Recording data on Roma and Egyptian citizens benefit from VET programs - Inclusion of Roma and Egyptians in VET programs - Development of VET programs in accordance with the planning at national and regional professional qualifications levels 2-5 of AQF and vocational training - Reorganization of VET providers at the regional level - Creation of the National Catalogue of Professional Qualifications 	<ul style="list-style-type: none"> - The provision of VET programs in accordance with the requirements for professional qualifications and skills - The signing of contracts for the operation of three (3) multifunctional centers VET - Institutional reorganization of certain providers to be integrated within 4 Multifunctional Centers - Maintenance and updating of the National Catalogue of Professional Qualifications - Offering programs to level 5 AQF of Multifunctional Centres (FMC) 	<ul style="list-style-type: none"> - Operationalizing four multifunctional centers - Monitoring of the implementation of new programs / revised VET - Implementation and monitoring of teacher training program for VET - The publication of raw data on the employment of graduates from VET programs
Q1 2018	Q2 2018	Q3 2018	Q4 2018

Reform measure 15: Modernise public employment services and increase employment of women, youth and vulnerable people

Q1 2016	Q2 2016	Q3 2016	Q4 2016
Adoption of laws and regulations to promote employment of women, youth and other groups of jobseekers.	Implementation of programs to promote employment of jobseekers.	Modernization of 10 regional job offices. Application of the new model of employment services. Modernization of IT system and performance management of staff to the employment offices.	Study evaluation skills needs of the labour market and occupational adaptation required AFP.
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Modernization of 10 regional job offices.	Implementation of programs to promote employment of jobseekers.	Extension of employment services under the new territorial division	Extension of employment services under the new territorial division
Q1 2018	Q2 2018	Q3 2018	Q4 2018

Increase cooperation with third parties, with business and employment agencies and temporary employment agencies	Implementation of programs to promote employment of jobseekers.	Cooperation with AFP in order to enhance the training of the unemployed to adapt to the needs of the labor market.	Operation of all the employment offices under the new model of employment services. Full operation of the IT system linked with other state agencies and the interactions between them.
--	---	--	---

Reform measure 16: Strengthening social protection and social inclusion measures

Q1 2016	Q2 2016	Q3 2016	Q4 2016
Monitoring of Economic Aid in 3 pilot districts with assistance from WB	Monitoring of Economic Aid in 3 pilot districts with assistance from WB Establishment of Statistical Indicators and Integrity Group	Adoption of laws and regulations in the context of the reform of social services and the extension of the scheme in 12 districts. The training of 100 civil servants to measure and monitor social inclusion	Extension of the scheme and digitalization in 12 counties The creation of structures necessary for the implementation of the reform LITTLE Completion in 2016 of a national study based qualitative social inclusion in Albania
Q1 2017	Q2 2017	Q3 2017	Q4 2017
Approval of the policy document with disabilities. The inclusion of social inclusion analysis for at least 5 policy and government documents	Electronic register Performing the analysis of statistics on gender, disability and ethnicity and link analysis with indicators on the national level and indicators at EU level	Elaboration of statistical indicators for measuring and monitoring social inclusion in Albania	2 thematic studies for social inclusion
Q1 2018	Q2 2018	Q3 2018	Q4 2018
Develop a communications strategy for social inclusion in Albania	Establishing a platform to promote and sustain political dialogue and civil Social Exclusion	Strengthen public administrative arrangements for social inclusion	

Reform measure 17: Drafting and implementation of a competence based curricula and training of teachers

Q1 2016	Q2 2016	Q3 2016	Q4 2016
		Training of teachers	Drafting the new curricula
Q1 2017	Q2 2017	Q3 2017	Q4 2017
	Piloting the new curricula. Training of specialists from central institutions, local education units and school directors.	Training of teachers	
Q1 2018	Q2 2018	Q3 2018	Q4 2018
	Training of specialists from central institutions, local education units and school directors.	Training of teachers	Implementing the new curricula in the whole education system

Table 12: Summary of structural reform measures

Area 2	Reform measure 1: <i>Further liberalization of the energy market</i>
Short description	<ul style="list-style-type: none"> - Improving the legal framework of the power and gas sector. - The completion of the important projects in the transmission system Completion of 400 kV interconnection line Albanian-Kosovo - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia), Albania's part and upgrade of 400/220 kV Elbasan2 SS.
Summary of implementation timeline	The activities of this measure are foreseen to be implemented during 3 years, up to 2018.
Cost of implementation	<ul style="list-style-type: none"> - Completion of 400 kV interconnection line Albanian-Kosovo 28.9 million EUR - Completion of 400 kV Interconnection line Elbasan (Albania) - Bitola (Macedonia), Albania's part 70 million EUR.
Expected impact on competitiveness	The further liberalization of the energy market 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. This reform measure will increase considerably the investments and contribute to job employment and competitiveness. This reform measure will have an indirect social impact, while it will improve employment opportunities.
Area 2	Reform measure 2: <i>Diversification of energy sources (Gasification)</i>
Short description	This reform will consist of the Preparation of the Gas Master Plan for Albania and Project Identification Plan (Consultant COWI-IPF) as well as increasing the performance of public institutions and companies operating in the gas/petroleum sector through the implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector".
Summary of implementation timeline	The activities of this measure are foreseen to be implemented during 3 years, up to 2018.
Cost of implementation	Preparation and approval of the Gas Master Plan for Albania and project Identification Plan (Consultant COWI-IPF), Grant, financing WBIF 1.1 million EUR. The implementation of the project "Capacity Building Project for Large Gas Infrastructure Developments in Albania with the Private Sector". Grant, financing SWISS Government 6.6 million EUR.
Expected impact on competitiveness	Diversification of energy sources (gasification) will have direct positive impacts on competitiveness by enabling the entrance of a new energy source in the country energy market, and will contribute to increase the security of energy supply. This reform measure will have a direct social impact, while it will improve employment opportunities.
Area 2	Reform measure 3: <i>Feasibility study for construction and upgrade of the Adriatic-Ionian Corridor</i>
Short description	A feasibility study, of the Adriatic-Ionian Corridor, is planned to be conducted in order to assess and address the physical impediments which contribute to increased transport costs and reduce the reliability of supply chains thereby raising the cost of doing business and pushing potential investments away from the country.

Summary of implementation timeline	The activities of this measure are foreseen to be implemented during 3 years, up to 2018.
Cost of implementation	3,000,000 EUR
Expected impact on competitiveness	The Adriatic-Ionian Highway/Expressway will: <ul style="list-style-type: none"> - shorten travel time; reduce road accidents, increase safety standards and reduce traffic bottlenecks; - facilitate businesses, tourists access to densely populated areas and tourist spots; - help attract more foreign investments.

Area 2	Reform measure 4: <i>Upgrading and construction of Durres Port Infrastructure</i>
Short description	Upgrading of the port's infrastructure will allow bigger cargo ships (cruisers included) to be anchored, increase freight volume, number of passengers and will also lower the cost of transport.
Summary of implementation timeline	The activities of this measure are foreseen to be implemented during 2 years, up to 2017.
Cost of implementation	7,660,000 EUR
Expected impact on competitiveness	Upgrading of the port's infrastructure will allow anchoring of bigger cargo ships (cruisers included), increase freight volume, number of passengers and will also lower the cost of transport, which will bring greater economic growth, create employment, attract foreign investments etc.

Area 2	Reform measure 5: <i>Improve the legal and regulatory framework for high speed broadband networks</i>
Short description	Albania remains in very low fixed broadband penetration. Broadband connectivity need further investments and developments. Therefore reforms toward broadband connectivity aims to economic growth and increase the competitiveness of Albania. It will focus on the implementation of the digital agenda, with a particular focus on ICT infrastructure and broadband networks.
Summary of implementation timeline	Based on the specific activities, this measure will be implemented in three years 2016, 2017, 2018.
Cost of implementation	12,556 EUR
Expected impact on competitiveness	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: <ul style="list-style-type: none"> - 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.

Area 3	Reform measure 6: Consolidation and defragmentation of agricultural land
Short description	The resulting high level of fragmentation and small size of agriculture farms lead to the decrease of the agricultural production, use of inadequate farming technologies, soil degradation and other negative impacts over the agricultural sector with major negative effects on competitiveness.
Summary of implementation timeline	The activities described in this document cover a three year period.
Cost of implementation	962,000 EUR
Expected impact on competitiveness	One of the main important impacts of the land consolidation reform will be the increase of the productivity of the agriculture production because of the economies of scale created as a result of the increase of the farm size. The increase of agriculture production will increase the competitiveness in domestic as well as foreign markets for these products which in turn will have impact in the increase of the exports as well as trade deficit reduction. The land consolidation reform is a complex one and firstly based upon the establishment of the legal basis and proper regulation strongly related to the formalisation of the agriculture holdings as well as their economic activity, which means increase of the access to subsidies and rural credits by farmers and agro-businesses .In addition, will increase investments in agriculture and development of the formal land market. In addition, land consolidation will lead to the increase of mechanisation of the agriculture which means increase of the new jobs too and improve the life quality in the rural areas. Additional benefits will come from the increased awareness and capacity building of all actors involved on gender issues related to land consolidation.

Area 3	Reform measure 7: Standardization of Tourism Sector
Short description	This reform aims to improve the overall quality of products/services within the tourism industry; raise the levels of demand nationally, regionally and internationally; reduce informality; promote competitiveness within the industry and provide valuable and reliable information on quality standards for the tourism and the travel industry.
Summary of implementation timeline	This reform will be implemented during a period of 3 years (2016 - 2018)
Cost of implementation	333,000 EUR
Expected impact on competitiveness	This reform will enable the delivery of equal and well-defined rules for the functioning of businesses in the tourism sector. Therefore it will reduce informality, enable better quality products and services in the tourism sector, it will further encourage and promote competitiveness in this sector, strengthen human capacity in the tourism sector as well as strengthen data collection and processing capacity.

Area 4	Reform measure 8: Reduce regulatory burden to business
Short description	Regulatory burden to business and access to finance are areas of major concern to growth and competitiveness. Therefore, this reform measure focuses on reduction of regulatory burden to business.
Summary of implementation timeline	The activities of this measure are foreseen to be implemented during 3 years, up to 2018.

Cost of implementation	1,138,000 EUR
Expected impact on competitiveness	This measure will have direct positive impacts on competitiveness by reducing administrative burden to business, and focusing on the binding constraints to growth and competitiveness. It will improve the doing business ranking, alleviate the most stringent procedures for business operations and reduce the time and costs of administrative procedures. In addition, the e-Permit reform will considerably simplify the construction permit, making business infrastructure investments faster and less costly. This reform measure will increase considerably the investments and contribute to job employment and competitiveness. This reform measure will have an indirect social impact, while it will improve employment opportunities.

Area 4	Reform measure 9: Effective implementation of the National Plan to reduce the level of the NPL
Short description	This reform measure is part of the national priorities to improve the access to credit for SMEs, a response to address the binding constraint to growth, an obstacle to SME growth, and part of SBA recommendations.
Summary of implementation timeline	This measure will be implemented in 2016 and 2017 based on the specific activities.
Cost of implementation	587,000 EUR
Expected impact on competitiveness	The national strategy on NPL resolution, together with the government reform towards business formalization will mitigate the existing constraints of lending and increase financing possibilities with lowering cost for credit. Thus, investments will tend to expand, resulting in increased productive capacity, competitiveness, sales, and ultimately growth. The national strategy of NPL resolutions, aim to improve credit risk, and through the risk sharing process with banks, provide incentive to boost credit growth. As banks easy credit standards following credit risk improvement, credit demand will be met by the appropriate credit supply. In the process, banks' supply for credit will become less selective improving access to finance for a large share of businesses, boosting the chances for creating employment opportunities.

Area 5	Reform measure 10: Effective implementation of Digital Agenda Strategy
Short description	Albania lacks a well-designed approach for innovation and R&D. Therefore reforms toward innovation and scientific research are prominent needs to ensure economic growth and increase the competitiveness of Albania. It will focus on the implementation of the digital agenda, with a particular focus on ICT, and increase the institutional capacities for research and innovation.
Summary of implementation timeline	Based on the specific activities, this measure will be implemented in three years 2016, 2017, 2018.
Cost of implementation	495,000
Expected impact on competitiveness	The proposed reform measure will spread the application of innovative ideas, stimulating more competitive projects every year. This will contribute to the increase of competitiveness of SME and their readiness to use ICT. It is expected an increase by 50% the number of businesses using ICT and 10% number of businesses in ICT due to digital agenda. The expected impact from Digital Agenda will result with an increased level of skills and expertise for 100 entrepreneurs/teams with strong driving forces representing a broad set of ventures, 100 SMEs and Micro enterprises in the very first stage of their economic life, 500 graduated and non-graduated youths that are interested in entrepreneurship activity, 500 Students of professional ICT schools and faculties and related profiles in Tirana. Investment innovation programs and ICT will contribute to the increase of competitiveness and ultimately employment and economic growth.

Area 5	Reform measure 11: <i>Enhancement of institutional capacities for research and innovation</i>
Short description	The reform measure proposed constitutes the first step to set Albanian research system and higher education in function of the country's development.
Summary of implementation timeline	This reform measure will be implemented within 3 years, 2016- 2018
Cost of implementation	6,000 EUR
Expected impact on competitiveness	Scientific research is the major driving force to increase competitiveness of a country. The potential impact of investments in research and innovation on productivity growth is even higher for developing countries, given the opportunity for "catching up" associated with larger investments in innovation. In order to achieve research excellence, it is essential to have systems that are competitive and transparent, with competitive recruitment and administrative procedure. Providing the right enabling conditions to improve scientific research and its quality is the result of appropriate governance mechanisms and adequate and competitive research funding. In Albania, increasing funding for research and ensuring its continuity over time remains a great challenge. In parallel, governance of research institutions needs to improve in line with the aim of research excellence. Good governance in research funding implies meritocracy and transparency in grant funding, as well as accountability, evaluation and monitoring practices, transparency, and performance evaluation that can gauge contributions to knowledge, local economic and social needs, and growth. Good governance also entails having a clear rationale behind both institutional funding, which ensures stability, and project-based funding. Further sustained efforts are required at the national level to strengthen the research and innovation capacity and increase Albania's competitiveness. The level of investment in research remains very low and there is an ongoing need to strengthen the building of human capital.
Area 6	Reform measure 12: <i>Facilitate trade through deep interagency cooperation</i>
Short description	Trade facilitation agenda is very much dependant on other processes, regional (CEFTA) and multilateral (WTO) and therefore threats to delays in specific aspects may be not overcome by Albania alone. A sound and permanent consultation and cooperation in the regional and multilateral agenda is required and therefore strengthening of internal capacities of public administration is crucial. The challenge in the later is substantial and an all-inclusive approach in the consultation with private sector through the National Committee on Trade Policy and Facilitation is required.
Summary of implementation timeline	This measure is planned to be implemented in three years, 2016-2018.
Cost of implementation	405,000 EUR
Expected impact on competitiveness	The reform measures proposed will have a direct impact on the reduction of the time and cost to import and export, and positively impact Albania's international trade. In addition, it is expected that the electronic exchange of data within the CEFTA context will reduce clearance time with these countries by 1/3. The increased capacities of both, border agencies and private sector, will contribute to a smooth implementation of new practices such as AEO, etc. The reform measure will also contribute to the improvement in ranking in the trading across borders indicator of the DB report 2017 while providing a solid basis for continuous improvement. The expected increase on export during 2016-2018 is expected at 9% per year. The expected trade openness is expected to be increased at 60% by 2017. The proposed reform measure will have indirect impact on employment due to the increase of trade and reductions of the related cost. This reform measure will also contribute to the lowering of the prices for consumers with the required quality and safety.

Area 6	Reform measure 13: <i>Effective implementation of recent legislative changes promoting new investment</i>
Short description	This reform measure will focus on the implementation of the law on strategic investment, economic zones and PPP.
Summary of implementation timeline	This measure will be implemented within two years 2016-2017.
Cost of implementation	144,000 EUR
Expected impact on competitiveness	The reform proposed will have a direct impact on strategic investment in particular. The increase of FDI inflows is expected to be at an annual average of 6-7%. The objective of the reform measure is to reach the share of FDI per GDP at the level of 9%-10% by 2018.

Area 7	Reform measure 14: <i>Improve quality and coverage of VET while ensuring linkages with labour market</i>
Short description	Increase number of students through the VET reform, transformation of schools in centers of excellence and establishment of multifunctional centers. Objective foreseen/included in the National Employment and Skills Strategy 2014-2020.
Summary of implementation timeline	2016-2020
Cost of implementation	10,000,000 EUR
Expected impact on competitiveness	Economic growth during the second decade of transition in Albania has largely been the result of a shift in labour from low to higher productivity sectors and structural transformations, which have created jobs in manufacturing industries and services while the role of agriculture has decreased. In line with this trend, the Government is devising its growth supporting policies with a wider reaching and better-structured approach, which ensures sustainability and creates the conditions for job creation in strategic and knowledge-based sectors of the economy. As a result, knowledge and skills are at the heart of this inclusive economic growth model, as well as the improvement of living conditions standards for the most vulnerable groups of population, as defined in NESS 2014-2020.

Area 7	Reform measure 15: <i>Modernise public employment services and increase employment of women, youth and vulnerable people</i>
Short description	Modernisation of the employment service and increase number of employed people and vulnerable groups, women and youth.
Summary of implementation timeline	2014-2018
Cost of implementation	360,000 EUR

Expected impact on competitiveness	Economic growth during the second decade of transition in Albania has largely been the result of a shift in labour from low to higher productivity sectors and structural transformations, which have created jobs in manufacturing industries and services while the role of agriculture has decreased. In line with this trend, the Government is devising its growth supporting policies with a wider reaching and better-structured approach, which ensures sustainability and creates the conditions for job creation in strategic and knowledge-based sectors of the economy. As a result, knowledge and skills are at the heart of this inclusive economic growth model, as well as the improvement of living conditions standards for the most vulnerable groups of population, as defined in NESS 2014-2020.
------------------------------------	---

Area 8	Reform measure 16: <i>Strengthening social protection and social inclusion measures</i>
Short description	Economic Aid reform and PAK. Digitalised system with the assistance of the World Bank.
Summary of implementation timeline	2016
Cost of implementation	100 million ALL
Expected impact on competitiveness	The priority area is directly linked with society and population wellbeing, especially by targeting children and youth and vulnerable categories. General wellbeing and education at an early stage improves the outcomes and productivity of children and youth into adulthood; while effective safety net systems enable reintegration of vulnerable people into productive life.

Area 8	Reform measure 17: <i>Drafting and implementation of a competence based curricula and training of teachers</i>
Short description	This measure aims to improve and adapt the curricula in PEU Education system based on competences and according to EU standards.
Summary of implementation timeline	During 2016 the new curricula and new text books for these curricula will be drafted. Also teachers and management personnel will be trained. During 2017 training of teachers and management personnel will continue and the new curricula will be piloted. During 2018 the new curricula will be extended to the whole Pre-university Education system institutions and trainings of teachers and management personnel will also continue
Cost of implementation	The total budgetary impact is € 920,469 for 2016, € 926,649 for 2017 and € 1,000,405 for 2018
Expected impact on competitiveness	Education is directly linked with labour market needs and economic development. Equal access to education for all groups of society and improvement of education services directly influences social outcomes. Therefore, better access in education and improvement of education system enable for better social integration and indirectly positively influence employment chances.

Annex 2

**Appendix with Development and Integration Partners
contributions to
Albania's Economic Reform Programme
2016-2018**

Introduction

Development and Integration Partners located in Albania were invited in a consultation roundtable, on January 13th, 2016. During this meeting, were presented, the medium-term Macroeconomic and Fiscal policy framework as well as the Structural Reforms Agenda for the period 2016-2018.

After consulting the draft document, their valuable comments and suggestions on the content of the ERP were reflected accordingly by the responsible national contributing institutions in Albania.

ERP 2016-2018 will be presented to the national Parliamentary Commissions: Commission for Economy and Finance and Commission for Productive Activities, Trade and Environment. Due to their calendar of work, started in January 18 (for the year 2016), the meetings will be scheduled for the first week of February, and the feedback they will provide, will be added to the contributions received.

A summary of comments provided by some of the international partners is provided below.

Comments on ERP macroeconomic and fiscal framework

World Bank (WB) considers the document provides a detail discussion on recent and expected macroeconomic developments, recent fiscal performance, a detailed information about 2016 budget exercise and underlines reforms as well as a broader (ambitious) strategy for continuing the medium term fiscal consolidation. Nevertheless, it would be interesting to explore the manifestation of the underlying shock beyond the GDP growth, such as the impact of exchange depreciation on the stock of debt and interest payments, and discuss in more details the implication of the realization of this scenario for the public debt path and consolidation strategy.

On Fiscal risks: the upfront discussion about fiscal risks to the baseline scenario and proposal of mitigation measures, especially regarding the fiscal risks associated with PPPs which a growing as a share of the investment pipeline are welcome, but it would also be useful to ensure that these projects are included in a coordinated investment planning exercise. Projects should be chosen based on their strategic value and expected impact independently on the financing mechanism.

On the Financial sector: The draft makes a good work in describing the current state of the financial sector and its mid-term outlook, recognising the high NPL issue as a current major impediment to improving access to finance, challenges to lower the NPLs, slow credit growth impacted by high risk premiums, weak demand, and external impacts (especially the Greek crisis).

Organisation for Economic Co-operation and Development (OECD) considers the section on Macroeconomic & Fiscal framework quite comprehensive, in addition, is suggested to ensure that the planned fiscal spending to be fully reflected in the structural reforms area.

Comments ERP structural reforms

World Bank

ERP is in line with the reform areas proposed under the World Bank Competitiveness Development Policy Operation (DPO) series. Particularly in the areas of business environment, deregulation and trade facilitation the measures proposed in the ERP are fully aligned with the prior actions suggested in the DPO both in terms of content and the timeline of implementation.

- Reduce regulatory burden to businesses: WB suggest including a specific reference related to an awareness campaign on the process of construction permits.

- Effective implementation of recent legislative changes promoting new investment: proposes to state the intention of the Government to draft a comprehensive Investment Law.
- Maritime transport: Upgrading and construction of Durres Ports Infrastructure: WB recognizes the importance of investing in infrastructure but would suggest that the Government couples these investments with more comprehensive regulatory changes which would allow the port to improve its effectiveness and efficiency.
- Employment and Labor Markets: In order to have a more comprehensive approach, the IPMG could be leveraged to build stronger linkages with teams focused on enhancing competitiveness and working with the private sector. At the same time, competencies of VET teachers and teach trainers, as well as quality assessment of training providers more broadly speaking, should be increasingly include industry feedback.

Italian Cooperation for Development

- The links between reforms envisaged in ERP II and interventions carried out in the framework of the Economic Reform Programme 2015 (hereinafter referred to as ERP I) can be further elaborated. In particular, the document could provide details on the ongoing implementation and/or successful completion of scheduled interventions in order to strengthen the ERP's overall vision and long-term institutional commitment.
- The costs breakdown provided for each reform in table 10 highlights details on IPA- and WBIF-allocated funds only. In particular, limited reference is made to the type and amount of bilateral aid, both at the aggregate level and in the implementation of each reform.
- The relevant Albanian Authorities should display a significant coordination effort, taking advantage of the IPMG setting, in order to maximize the results of different initiatives and effectively consolidate planned activities with the wealth of information and data already existing.
- Consolidation and defragmentation of agricultural land: the “impact on competitiveness” subsection does not mention the Territorial Reform Law.
- Business environment, corporate governance and reduction of the informal Economy: In this area, the ERP II could provide additional information on how the IPMG on Competitiveness and Innovation can coordinate the stakeholders (including donors and other non-government actors) involved in the implementation of reform measures, and their respective financial contribution.
- Reduce Regulatory Burden to Businesses: It is recommended to provide further details on the state of play of implementation and achievements related to: i) the National Business Centre (NCP), including the list of provided services, with a view to clarify its contribution to the implementation of the reform measure.
- Technological absorption and innovation: overall interventions envisaged under the area are comprehensive, coherent and in line with international best practices in the field. However, synergies between policy interventions in Area 5 (Technological absorption and Innovation) and Area 3 (Sector development) should be further elaborated. The document makes references to a set of innovation policy tools in Albania (Competitiveness Fund, Innovation Fund, Voucher Scheme, Triple Helix, and Albanian Digital Agenda Strategy). In this regard, the ERP II could consider providing additional information (references or annexes).

German Technical Cooperation (GIZ)

- In light of the importance of the tourism sector for Albania's economic development, GIZ suggest to broaden the scope of analysis and solution in the section that describes the state of play in the area. These could be investment incentives, incentives for formalization, customer protection, HR development, marketing etc.

European Bank for Reconstruction and Development (EBRD)

- In general, in last year's ERP we appreciated a table that showed which development partner was working on which TC project. This was useful because this is how we found out that other development partners were already working on projects the Government had asked us to undertake. It would be good to have such an annex again.
- ERP may also want to include a reference to the Investment Council which served this purpose as well as the Integrated Policy Management Groups (IPMGs) which are going to be established.
- Infrastructure: is suggested to address policy priorities in the transport sector in addition to the investment plans. Two specific suggestions:
 - “Develop a plan for sustainable transport on the basis of the TC study (Sustainable Transport Plan)”
 - “Develop a Road Tolling Strategy on the basis of the TC study (Road Tolling Strategy)”
- The campaign against informality is mentioned in many sections of the document – and rightly so given the importance and cross-cutting nature of this important undertaking. In our view, it is important to increase incentives for businesses to become formal in addition to enforcement procedures (e.g. through access to financing, support programmes, integration in value chains etc.).

Organisation for Economic Co-operation and Development (OECD)

In the current ERP draft, the number of priority reform measures is in line with the European Commission Guidance for the Economic Reform Programmes (2015) target of 15 up to 20 measures. However, the current draft is quite dense and could be streamlined. It would be advisable to further standardise the description of measures, giving the ERP draft a higher degree of consistency, and ensure that each of the descriptions follows the outline specified in the new ERP guidelines. This includes:

- A diagnostic of the reform area (the diagnostic shall be done for the thematic area not for each single measure).
- A report on policy guidance implementation since May 2015 and an assessment of those reforms.
- Reform plans related to the policy guidance (listing and brief description of measures and their expected impact)

Additional care should be given to further selecting specific measures within very broad measures, for instance, by using the provided prioritising tool. For each selected measure, it would be advisable to outline specific actions, the expected impact on competitiveness, the timeline for implementation and the allocated budget. Further, listing concrete milestones throughout the duration of the reform implementation would be welcomed.

- Infrastructure: Measures in this area address key binding constraints identified by the OECD Growth Diagnostic analysis, especially within the context of creating a more stable electricity supply. However, the analysis could be furthered by explaining and providing details on the reason why Transport and Energy are important for companies and competitiveness and what should be a priority from the competitiveness point of view.
 - Reform Measure on energy: the establishment of Power Exchange network should be probably mentioned, when linked to the model of energy market according to third Energy package. You can mention it under section 2. Policy implementation.
 - Reform Measure on Maritime transport: Upgrading and construction of Ports' Infrastructure is crucial to support competitiveness. It is a relevant and important measure, though its description could be further strengthened. It could state for example whether there is an increasing demand for port activities and a need to

address this demand by improving the capacities of the port and especially containers trade).

- Sector developments (Agriculture, Industry and Services sector): The reforms appear in line with DG NEAR's and the OECD recommendations. As Land Consolidation seems to be in line with the proposed measures. Various feasibility studies that have been conducted for the formulation of the LC Strategy could be used then as references to provide the justification of the need for those specific actions. You may consider using those as milestones in the ERPs.
- Business environment: In line with the OECD Growth Diagnostic analysis, the relevance of measures in this section has been highlighted in the DG ECFIN and the DG NEAR assessments. It would be helpful to further detail actions to be taken within this measure. Measures on access to finance address a key binding constraint identified by the OECD Growth Diagnostic analysis, and the argumentation is fully in line with the OECD SBA analysis on access to finance. Measures on the reduction of the informal economy could be further stressed, as a key binding constraint which is highlighted in the EC Assessments, as well as the OECD analysis.
- Technological absorption and innovation: At this stage, Business Innovation has not been identified as a key binding constraint by the OECD Growth Diagnostic analysis. Yet, improving business innovation can be seen as a longer-term goal. Furthermore, it might be helpful to provide sources on the provided estimates of costs, and specify the rationale in cases where it is stated that there is no budgetary impact of some policy measures.
- Trade integration: This section is mostly aligned with previous recommendations. Yet, trade facilitation measures could be extended also to a larger number of trading partners beyond Kosovo, like, for instance, the entry points for EU trade. Specific measures could be foreseen for export processing companies and companies providing cross-border services, particularly in areas defined as strategic ones.
- Employment and labour market: The relevance of the Vocational Education Reform has been highlighted in the DG NEAR and the DG ECFIN assessments, while the OECD Growth Diagnostics sees education as a longer-term priority. In general, timeframe of actions and allocated budget could be made clearer.
- Fostering social inclusion: Some of the points raised as measures of this section refer to actions while others refer to goals for undertaking reforms. Splitting them into two categories could make the document more coherent and align it with the EC guidelines. Financing sources for the foreseen measures could also be specified in a clearer manner, while the social outcomes of such measures could benefit from a quantitative data analysis.

United States Agency for International Development (USAID)

- Technological absorption and innovation: Building scientific research capacity in Albania will require a commitment of much more than three years. A better short-term approach would be to establish partnerships with key international universities and research institutions to gain access to valuable research that already exists.
- Employment and labour markets: Severe punishments will likely lead to greater informality. Encouraging businesses to obey the law will encourage formality and growth. This could require reforms to the law.

United Nations Entity for Gender Equality and the Empowerment of Women (UN WOMEN)

- Infrastructure: Gender equality issues related to transport and mobility should be addressed by concrete labour market inclusion measures.
 - As gender-responsive budgeting started in 2014 (to be completed in 2017), it is to continue to develop the capacities of the public sector to engage in gender-responsive programming and resource allocation, to generate evidence, and align gender-responsive reform measures and policies with respective budgets. Supporting financial accountability, civil society will be included in budget decisions, and in monitoring budget implementation. Ensuring financial feasibility, gender-responsive

budgeting entails macro-level policy initiatives which aim at ensuring that government budgets include the necessary financial resources for implementing national goals and gender policy as well as international commitments to gender equality.

- VET (with a focus on rural areas and agriculture): Factors discouraging girls (and their parents) from choosing vocational education include deeply gender stereotyped profiles and courses, the location of VET schools, lack of transportation, unsafe dormitories, and the overall social climate in VET schools. In line with economic restructuring, the content of vocational education has shifted from manufacturing towards service occupations (economics, management, hotel, tourism, and ICT). However, the share of girls attending VE has decreased, indicating the existence of discouraging factors preventing girls from obtaining education which corresponds to labour market requirements, the needs of the private sector, and ultimately results in employability, gainful employment, and economic inclusion. Particular attention will be paid to the VE needs of women men, girls and boys in rural areas, focusing on providing theoretical education in combination with the practice of vocational education, in order to provide the stimulating impetus to rural area development, including the required support to the agro-processing industry. Rural area are also to be served and covered by adult training, since public education and training for adult is currently missing.

Women constitute a significant share of unpaid rural workers; more often than men's, their work is informal. Targeted education and training measures are required for women and girls to obtain qualifications which enable them to engage in gainful, formal employment, thereby moving from passive social inclusion measures to activating an inclusive labour market, which offers women and girls equal opportunities for engaging in the economy.

- Property and decisions regarding property are mostly in men's hands. This fact prevents women from benefiting from assets, accessing credit, and training opportunities (particularly extension), and effectively entering business and value chains
- In line with national legislation, strengthening women's role as equally legitimate actors as co/owners of property, decision-makers, and citizens, entitled to information on reform and local infrastructure planning. Women face difficulties in equal participation and accessing information because their behaviour patterns, rights, and needs are insufficiently taken into account, with entrenched legal and social norms impacting on women's ability to actively pursue opportunity. Creating equal opportunity for women in all spheres, including in the family, community and society is a precondition for unlocking women's potential for the rural economy and rural development in general.
- Tourism: Women's limited access to information on economic opportunity in the tourism sector, such as on education, training, employment and business opportunity, local tourism infrastructure planning, and delivery and promotion, including through the web.
- On Business environment: The differentiated gender-specific impact of regulations on women and men is not always adequately taken into account. Mostly as a result of cultural expectations, men are conceptualised as decision makers and business actors, and, as a consequence, the particular circumstances, needs and concerns women in business face tend to be left out of technical business and its planning. Furthermore, in the majority of firms, men remain top managers, while women remain under-represented on corporate boards. Programme interventions are also to address the specific needs and circumstances of women representatives in business groups. Adequate support to women-led businesses, e.g. through finance and quality advisory services, can help improve women's entrepreneurship as well as women's employment from low-quality, low productivity jobs to high value-added categories.
- Technological absorption and innovation: Increase innovation skills for SMEs by using ICT; with a specific aim to ensure equal participation and benefiting of women in research and innovation work. Closing the gender gap in e-literacy will offer significant opportunities in a range of areas, including education, agriculture, tourism and entrepreneurship, which in turn would lead to the creation of a significant number of new

jobs as well as increased productivity and competitiveness. Furthermore, e-literacy positively impacts on women's and girls' informed participation in and contribution to decision-making, including on policy and budgets, thereby improving the overall quality of (economic) governance.

- Employment and labour markets: Employment drops have been particularly severe for young women (25% per year). This represents a clear loss of human resources for Albania's economy and points to the existence of particularly unfavourable conditions and mechanisms of exclusion from the labour market for young women, clearly demanding targeted, gender sensitive policy responses. Gender gaps in employment intersect with education and training gaps and intersect with gendered economic exclusion. In this context, key issues to be addressed include youth unemployment, higher shares of girls than boys not finishing elementary school in rural areas, rural areas facing deeper gender inequality compared to urban areas, higher share of informal and unpaid work in the rural economy, women and girls facing a triple work burden different to men: in the productive, care, and social/community sphere.⁴⁶ All these factors limit women's and girls' ability to take advantage of newly emerging employment and economic opportunities.
- Fostering social inclusion, combatting poverty and promoting equal opportunities: Social protection systems are designed to provide protection against the risks and needs associated with unemployment, parenting responsibilities, sickness and healthcare, invalidity, loss of a spouse or parent, old age, housing, and social exclusion. Social protection and social inclusion aim to promote social cohesion and equality that is of utmost importance for sustainable economic development. Measures include increasing and unlocking human potential through offering education and training, employment and job creation, and out-of-work benefits. In parallel, efficiently operating social inclusion systems aim at combatting poverty and promoting equal opportunities, so social protection systems can start using available resources more efficiently. The National Strategy for Integration and Development 2016-2020 stipulates activities for strengthening social security, consolidating social protection, and building a more inclusive and equal society.

Between 2008 – 2014, poverty increased from 2,3% to 2,9% (sex-disaggregated poverty data are unavailable), and public safety net systems have largely proven ineffective. A consistent system for measuring the efficiency and effectiveness of social inclusion policies, measures and activities covering vulnerable population groups, such as the poor, elderly, minorities, people with disabilities, and different groups among vulnerable women and children, still needs to be established.

As education is a clear driver for sustainable economic development and directly and positively impacts on growth through employability and employment of women and men, it is important to overcome qualitative challenges and gender-specific barriers in the educational system.

⁴⁶ INSTAT (2011). Albania Time Use Survey 2010-2011.