Assessment on Albania - Economic and Financial Dialogue between the EU and the Western Balkans and Turkey

The annual Economic and Financial Dialogue with the EU, the Western Balkans and Turkey took place today in Brussels. The submitted 2018 Economic Reform Programmes outline the medium-term macroeconomic and fiscal framework as well as a wide range of structural reforms to enhance competitiveness and long-term growth. The programs cover the period 2018-2020. The European Commission and the European Central Bank prepare assessments of these programmes. The joint conclusions of the meeting include country-specific policy guidance reflecting the most pressing needs of each economy in the field of macroeconomic governance and structural reforms.

Assessment on Albania


Albania's economic expansion is expected to continue in 2018-2020 on the back of stronger domestic demand. Private consumption is seen as the major growth driver in the context of an improving labour market, rising confidence, and favourable financial conditions. The projections see investment as an additional source of growth although at a more moderate rate than over the past two years. There is a risk that net exports will subtract from GDP growth in view of stronger domestic demand. Monetary policy remained accommodative in view of inflation staying below target, and the budget deficit stabilised at a moderate level in 2017. Fiscal consolidation plans have been back-loaded compared with last year's programme which will slow down the envisaged reduction of the still high public debt-to-GDP ratio.

The banking sector stays liquid and well-capitalised and risks to financial stability remain overall muted. The ratio of non-performing loans (NPL) decreased considerably, which helped to contain credit risk, but still remains elevated and an obstacle for further credit extension. There was some progress as regards de-euroisation on the lending side, while the share of foreign exchange deposits in total deposits continued to grow. Following the approval of the national strategy (Memorandum of
Cooperation) on de-euroisation in April 2017, the Bank of Albania approved some measures, including increasing the Reserve Requirements Rate for banks' fx-eligible liabilities. A license was granted to open the first private stock exchange to contribute to the deepening of the currently very shallow capital markets, which launched its operations at the end of February 2018.

Structural obstacles to growth and competitiveness include still unclear land ownership and insufficient enforcement of property rights, a high level (though decreasing) of informality and corruption despite progress achieved through judicial reform, an excessive regulatory burden and unpredictability in the judiciary system, which act as a discouragement to both foreign and domestic investment. The lack of a comprehensive cadastre hinders the development of the agricultural sector, tourism, infrastructure improvements, access to finance, amongst other things. Creating favourable conditions for private investment would facilitate much-needed investments in infrastructure. The completion of the liberalisation of the energy market is important. There has been some limited progress in unbundling the electricity and gas markets with the preparation of an unbundling plan and the establishment of a new gas company. Skills mismatch, disincentives to work and weak employment support contribute to high youth unemployment and low female labour market participation.

There is no comprehensive approach to addressing the high incidence of undeclared work. Efforts to address these challenges have been limited.

Participants take note that Albania made significant progress in some areas, such as the submission of data for Europe 2020 indicators, but did not improve its compliance to the annual national accounts main aggregates requirements as regards completeness as 2016 annual data for expenditure have not been transmitted. Concerning population and employment, Albania transmits only total population data for the complete time series. Non-financial sector accounts and financial accounts data have not yet been provided. Participants took note of progress in the submission of government deficit and debt statistics. Participants recommend increased efforts to meet the requirements of the EDP notification. Further efforts are needed to fill in the gaps for infra-annual statistics, as well as for regular transmissions of quarterly government finance statistics.

In light of this assessment, Participants hereby invite Albania to:

1. Introduce further fiscal consolidation measures with a view to meeting the indicated medium-term target of reducing public debt to below 60% of GDP in 2021.
2. Support fiscal consolidation by (i) strengthening tax administration further; (ii) broadening the tax base and avoiding new tax exemptions; (iii) fully implementing the valuation-based property tax; and (iv) ensuring that new Public-Private Partnerships are only contracted on the basis of solid cost-benefit analyses and fiscal risk assessments.
3. Conduct monetary policy in line with reaching the inflation target. Increase the transparency of monetary policy communication by publishing time series on core inflation and inflation expectations. Implement the remaining measures of the NPL resolution strategy, also with a view to addressing factors hampering access to finance for corporates. Based on regular analysis of relevant indicators and impact assessment, explore other measures in line with the Memorandum of Cooperation to increase the use of the national currency at all levels.
4. Ensure effective liberalisation of the energy market and functioning of the power exchange. Adopt the legal provisions to effectively implement the national energy strategy and further broaden the energy supply mix, focussing on incentivising energy efficiency and renewable energy production beyond hydropower.
5. Further strengthen the process of cadastral, land and property registration, including clarification on land ownership, with a special emphasis on de-fragmentation and consolidation of agricultural land, and swift case handling in case of court procedures. Reinforce measures to
finalise the property restitution and compensation process.

6. Ensure sufficient capacities for the implementation of employment policies, in particular for youth and women, and improve linkages between active and passive employment measures. Address undeclared work, including by strengthening the labour inspectorate. Support the development of basic education and increase the investment in initial teacher training.

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