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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

ALBANIA
(2025-2027)

COMMISSION ASSESSMENT

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1. EXECUTIVE SUMMARY

Albania's economic growth continued to be strong at close to 4% in 2024, and the economic reform programme (ERP) projects GDP to grow at a similar pace in 2025-2027. Economic output in 2024 was driven by solid domestic demand, strong tourism performance and sustained construction activity. Household consumption accelerated, supported by increasing real wages amid slowing inflation and stronger credit growth helped by favourable financing conditions. The labour market registered positive developments with increasing employment and lower unemployment, primarily driven by higher job creation in the services sector. The baseline scenario set out in Albania's ERP projects real GDP growth to maintain the same robust pace of around 4% over 2025-2027, on the back of surging investments and growing private consumption. Exports of services, particularly tourism, are expected to have a positive performance slightly offsetting the impact of rising imports. The current account deficit is set to increase slightly from its historic low registered in 2023, but at around 3% of GDP it is much below its long-term average, pointing to structural improvements brought about by the ongoing tourism boom. Consumer price inflation continued its downward trend in 2024, falling below the central bank's target of 3%, while the monetary policy stance was relaxed, with the key interest rate reduced to 2.75%. The central bank intervened on the foreign-exchange market to limit the strong appreciation of the lek.

Fiscal consolidation accelerated in 2024, but the budget balance is set to deteriorate in 2025 and then to improve gradually in the next two years. In 2024, the general government budget deficit narrowed to 1% of GDP, which was lower than the budget target of 2.4% of GDP. While revenues performed well, this fiscal outcome was partly the result of public investment under-execution. The ERP projects the budget deficit to widen to 2.6% of GDP in 2025 on the back of higher expenditure, in particular capital spending. Revenue growth will be supported by the implementation of the recently approved medium-term revenue strategy. A lower expenditure-to-GDP ratio is projected to help decrease the budget deficit to 1.9% of GDP in 2026 and further to 1.6% of GDP in 2027. The public debt ratio fell more than expected to below 55% of GDP in 2024, reflecting a positive primary balance, a favourable snowball effect and the appreciation of the exchange rate. It is projected to continue its downward path over 2025-27, but at a more moderate pace than in recent years as the debt-reducing effect of inflation fades while interest costs are set to rise.

The main challenges facing Albania are the following:

- **Government revenues remain low while tax expenditures result in substantial public revenue loss**. Government revenue as a share of GDP increased in 2024, but the ratio remains low compared to other countries in the region. Tax expenditures in personal income taxation, value added taxation, and corporate taxation make the tax system more complex, less transparent, may have adverse distributional impacts, and they result in substantial revenue losses. The implementation of the medium-term revenue strategy adopted in 2024 is crucial for increasing revenues over 2025-2027, but it mainly focuses on efficiency gains from tax administration measures. Revenues could be boosted further by comprehensively reviewing tax expenditures and revising tax policies.

- **There is scope to strengthen fiscal risk monitoring and fiscal governance, while improvements to public investment management (PIM) could address the under-execution of capital spending.** Fiscal risks continue to stem from loans and guarantees to state-owned enterprises (SOEs), public-private partnerships (PPPs) and the build-up of arrears. Additional risks arise from potentially large state guarantees for the National Development Bank, which will be a deposit-taking institution according to the recently adopted law on its establishment. Against this background and in view of high gross financing needs and the short maturity structure of public debt, it remains crucial to continue strengthening fiscal risks monitoring, including the financial performance of SOEs. Discussions have started on a potential pension reform that should be built on a proper assessment of the long-term cost of ageing and the sustainability of the pension system. Albania has shown strong commitment to abide by the fiscal rules focusing on the primary balance and the path of public debt, but despite some preparatory steps there is no independent fiscal institution in place yet. It is important to enhance the way recent PIM legislation is put into operation in view of plans to increase capital spending.

- **Albania's structural challenges relate to improving the business environment, addressing the informal economy, advancing the green transition and developing human capital.** The business environment remains affected by a weak rule of law, limited access to finance, and shortcomings in the oversight and governance of state-owned enterprises. The energy sector is volatile, with hydro-electricity production heavily dependent on rainfall. Ensuring the market integration of the energy sector into the EU single market remains a challenge. Infrastructure gaps, including low digital connectivity are obstacles to economic growth. Albania has a very high rate of low-skilled adults, high rates of early school leaving and low digital literacy. Overall, the education system needs to be modernised, with improvements in the labour market relevance of skills. These challenges are expected to be addressed through key structural reforms identified in the country's reform agenda under the Growth Plan for the Western Balkans.

The implementation of the policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2024 has been partial. Albania complied with the fiscal rules on the budget balance and on public debt and accelerated the pace of fiscal consolidation in case of better-than-expected economic and revenue performance. In 2024, the fiscal outcome was much better than the revised budget, which was amended three times via normative acts. Arrears continue to be an issue as they continued to build up throughout the year. Nevertheless, the end-of-year target for their reduction was achieved. At the same time, the reliance on *ex post* clearance of arrears through budget reallocations should gradually be reduced. Tax revenue as a share of GDP increased in 2024 and the medium-term revenue strategy 2024-2027 has been adopted by the Council of Ministers. A stand-alone Fiscal Risk Statement has been drafted during 2024, but it has not yet been published. SOE transparency and accountability remains to be improved. The authorities worked on the PPPs law, but PPPs are not integrated into the national single project pipeline. Monetary policy contributed to bringing inflation down, while the central bank started to collect detailed real estate data from banks, aiming to develop analytical frameworks to better assess real estate-related risks.

2. ECONOMIC OUTLOOK AND RISKS

Albania's economy continued to expand in 2024 at a robust pace, in line with ERP projections. The ERP estimates annual GDP growth at 3.9% in 2024, the same as in 2023.[1] For the first three quarters of the year, real GDP growth was 4%, gathering pace in the third quarter. Domestic demand was the main growth driver, with a solid increase in both private and public consumption. Supported by rising wages and rapid disinflation, private consumption growth accelerated to 3.6% in 2024. The labour market registered positive developments with rising employment[2] and falling unemployment[3], primarily driven by higher job creation in the services sector. Easing monetary conditions aided the increase in investment, while the continuing boom in tourism pushed up services exports. The main headwind came from goods exports which continued to contract on the back of lower demand from the euro area, declines in raw material prices in international markets and the strengthening of the lek's exchange rate. Net exports are estimated to have dragged down growth due to a strong rise in imports and falling merchandise exports. On the production side, the construction sector performed very well together with sectors linked to tourism (such as trade, transport, accommodation and food services). In contrast, the industrial sector continued to contribute negatively to growth, particularly on account of mining and manufacturing, which were also reflected in lower goods exports. Meanwhile, the agricultural sector's contribution to growth remained negligible. Overall, Albania's economy continued its shift towards the service sector.

Over 2025-2027, the ERP projects GDP growth to remain stable at 3.9%- 4%. In the baseline scenario, domestic demand is expected to be the key driver of growth, with positive contributions from private and public consumption as well as investments. Furthermore, net exports are projected to have a slightly positive impact on overall GDP growth (averaging 0.3 pps per year). More specifically, final consumption is projected to grow in real terms by an average of about 2.5% per year (contributing an average of 2.1 pps per year to overall growth), while investments are anticipated to experience real growth of 5.9% per year on average (contributing about 1.4 pps per year to GDP growth). Exports of goods and services are forecast to grow by 4.4% per year on average in 2025-2027, which represents a slowdown compared to the previous years (and the previous ERP's projections). Imports of goods and services are also projected to expand at a slower pace (3% on average). On the supply side, all major economic sectors are expected to expand in line with their historical average growth rates. Employment is expected to grow by an average of 0.2% per year over the period 2025-2027, with higher labour force participation being the main driver of labour supply growth (given the projected decline in population). The ERP estimates a slightly positive output gap over 2025-2026 (0.1%) and a slightly

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[1] Macroeconomic and fiscal estimates and forecasts covering the period 2024-2027 have been taken from the ERPs themselves; if available, preliminary macroeconomic and fiscal out-turn data for 2024 have been taken from the relevant national sources (Statistical Office, Ministry of Finance, Central Bank).

[2] The employment rate for the population aged 15-64 was 68.3% in Q4-2024 (up from 66.8% in Q4-2023), according to the Quarterly Labour Force Survey published in March 2025. At the same time, labour market indicators covering 2023-2024 were revised (based on the results of the 2023 Population and Housing Census).

[3] The unemployment rate for people aged 15 years and above fell to a historic low of 8.1% in Q3-2024 and then edged up to 8.8% in Q4-2024.The unemployment rate for the age category 15-64 fell to 9.6% in Q4-2024 from 10.2% in Q4-2023. These figures are from the Quarterly Labour Force Survey for Q4-2024.

negative output gap (-0.1%) in 2027. The programme contains an alternative downside scenario, which assumes that real GDP growth is 1.5 pps lower each year compared to the baseline projections.

The baseline GDP growth scenario is in line with recent economic performance but faces some downside risks. Compared to the previous programme, the ERP keeps growth estimates unchanged for 2025 and 2026. Nevertheless, the baseline scenario is more positive than the Commission's autumn forecast[4] and above international ones. Both the ERP and the Commission forecast expect domestic demand to remain the main growth driver. At the same time, there are differences in the expected composition of domestic demand. Notably, the ERP expects investments to surge in 2025 (7.6% y-o-y growth), followed by strong growth also over 2026-2027 – which is much higher than in previous years. The increase in investment is in line with the Reform Agenda plans, but the pace may be on the optimistic side, given the track record of public investment under-execution. Meanwhile, the ERP assumption for consumption growth (2.5% per year) may turn out to be conservative, given the strong household consumption in 2024. Furthermore, import growth over 2025-2027 may turn out to be stronger than expected by the ERP given the projected investment and consumption dynamics. When presenting the downside scenario, the ERP mentions domestic and external risks, which include slower EU economic performance with subsequent effects on Albania's exports of goods and services, remittances, and various foreign capital flows, weaker lending growth, changes in exchange rates and interest rates, and slower implementation of planned structural reforms.

Table 1:

Albania - comparison of macroeconomic developments and forecasts

	2023		2024		2025		2026		2027	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
Real GDP (% change)	3.9	**3.9**	3.8	**3.9**	3.6	**3.9**	3.5	**4.0**	n.a.	**3.9**
Contributions:										
- final domestic demand	3.1	**2.9**	4.9	**4.4**	3.6	**3.7**	3.4	**3.5**	n.a.	**3.6**
- change in inventories	-2.6	**-2.4**	0.0	**0.0**	0.0	**0.0**	0.0	**0.0**	n.a.	**0.0**
- external balance of goods and services	3.4	**3.4**	-1.2	**-0.5**	-0.1	**0.2**	0.1	**0.5**	n.a.	**0.3**
Employment (% change)	1.5	**0.0**	1.3	**0.8**	1.0	**0.3**	0.9	**0.2**	n.a.	**0.0**
Unemployment rate (%)	11.1	**11.2**	10.5	**10.2**	10.2	**9.8**	10.0	**9.5**	n.a.	**9.3**
GDP deflator (% change)	6.1	**6.1**	2.7	**1.3**	3.1	**1.2**	2.6	**1.2**	n.a.	**1.2**
CPI inflation (%)	4.8	**4.8**	2.3	**2.2**	3.2	**3.0**	3.1	**3.0**	n.a.	**3.0**
Current account balance (% of GDP)	-0.9	**-1.2**	-3.1	**-2.7**	-3.2	**-3.7**	-3.2	**-3.1**	n.a.	**-3.1**
General government balance (% of GDP)	-0.4	**-1.3**	-2.3	**-1.5**	-2.4	**-2.6**	-2.0	**-1.9**	n.a.	**-1.6**
Government gross debt (% of GDP)	57.5	**57.5**	56.3	**55.2**	55.1	**54.8**	53.9	**54.0**	n.a.	**53.2**

Sources: Economic Reform Programme (ERP) 2025, Commission Autumn 2024 forecast.

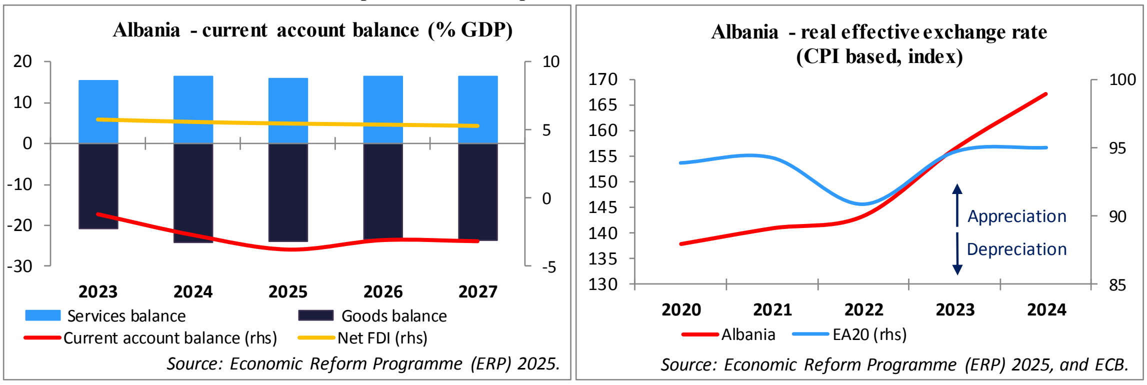
Inflation has steadily declined to below the 3% target. Annual consumer price inflation dropped from 3.4% in January 2024, its highest reading in the year, to 2.1% in December, much lower than a year earlier (4%). This decline was primarily driven by lower food prices, followed by a decrease in oil prices, alongside the steady appreciation of the lek[5].

4 For 2025, the ERP's growth estimate is broadly in line with the Commission's autumn forecast (higher by 0.3 pps.), while for 2026 the gap is slightly larger (0.5 pps.).

5 The exchange rate has been on a steady appreciation trend (driven by strong inflows from tourism, FDIs and remittances) since 2022 and it dipped below 100 lek per euro in August 2024. The Bank of Albania has intervened in the foreign-exchange market to limit the rapid appreciation of the lek as it deemed that part of the appreciation was not explained by macroeconomic fundamentals. In 2024, the intervention

While the drop in food prices was a regional trend, its impact on Albania's inflation was amplified by the exceptionally high share of food in the consumption basket (around 35% in 2024). The disinflation process has been uneven, with imported inflation[6] declining more quickly due to falling global commodity prices and the lek's appreciation. On the other hand, domestic inflationary pressures have been driven by a tight labour market and rising wages. Core inflation was also low in 2024. Due to the rapid decline in inflation, the Bank of Albania implemented two reductions in the policy interest rate in 2024, lowering it from 3.25% to 2.75%, and keeping it steady at that level since November 2024. The ERP and the Bank of Albania projects that average annual inflation will gradually rise towards the 3% target in 2025. Nevertheless, consumer price inflation recorded a slight decline in the first two months of 2025, to 1.9% on average.

Graphs: external competitiveness and current account



After falling to an historic low in 2023, the current account deficit is expected to widen over 2024-2025, and then stabilise at close to 3% of GDP in 2026-2027. The current account deficit averaged around 6% GDP in 2018–2022, before falling significantly to 1.2% of GDP in 2023. In the first three quarters of 2024, the current account deficit stood at 1.3% of GDP, 1.2 pps. higher than in the same period of 2023. This widening deficit was primarily driven by a rise in the goods trade deficit, due to a decline in exports and a continued increase in imports driven by the rapid expansion of domestic demand. In contrast, the services, primary income, and secondary income accounts showed further improvements. According to the ERP, the current account is projected to widen to 2.7% of GDP for the whole 2024. In line with higher investment and consumption (which increase imports), the current account deficit is projected to increase in 2025 and then stabilise at 3.1% of GDP over 2026-2027. This is still much lower than the longer-term historical average, which points to structural changes in the economy, in particular the surge in tourism which raised services exports from 24% of GDP in 2018 to 30.2% in 2023, and led the overall trade deficit to shrink from 13.7% to 5.4% of GDP over the same period.

Net foreign direct investments (FDI) continued to grow in 2024. As a share of GDP they are set to slightly decrease, but still fully cover the current account deficit. For January-September 2024, net FDI inflows grew by 5.8% year-on-year. Net FDI remained the main source of financing for the current account deficit, covering about 421% of it (in the nine-month period). The bulk of FDI inflows targeted the real estate sector and tourism.

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amounts nearly tripled from the previous year as the central bank purchased foreign currency also outside of its preannounced auctions.

6 The contribution of this component to headline inflation has decreased to around 15%, compared to a historical average of 45%.

As a share of GDP, full-year net FDI inflows are estimated to have decreased to 5.6% in 2024 from 5.8% the previous year. The ERP projects them to register continued (albeit moderate) growth in nominal terms, but decline as a share of GDP from 5.5% in 2025 and to 5.4% in 2027. This profile implies that the current account deficit will continue to be fully covered by FDI in 2025-2027. Albania's net international investment position continued to improve reaching around -41.6% of GDP in 2024, from -44.0% of GDP in 2023 (and 49.3% in 2022). External debt as a share of GDP is on a downward trend, with the ratio falling to 41% at the end of the third quarter of 2024 from 46.1% at the end of 2023. This reduction was driven by a decrease in external debt held by the general government, nominal GDP growth and the appreciation of the lek against the euro. For the remainder of 2024, gross external debt is projected to decline to 40% of GDP, and thereafter it is forecast to continue declining gradually in line with an expected trajectory of fiscal consolidation[7].

The banking sector remained stable, supported by well-capitalised, liquid, and profitable banks, while the non-performing loans ratio decreased. At aggregate level, banks had a capital adequacy ratio of 19.8% in December 2024, which is well above the Albanian minimum requirement of 12%. Following very good performance in 2023, banks' profitability continued to improve in 2024 supported by increasing net interest income, higher income from fees and commissions, and the decrease in loan-loss provisions. The return on assets came to 2.2% in December 2024, while the return to equity reached 18.2%. The non-performing loans (NPL) ratio stood at 4.2% in December 2024, declining from 4.7% a year ago; the reduction was driven by fast growth in new loans. Driven by higher demand and favourable financing conditions, private sector credit accelerated to 14.5% on average in the first 10 months of 2024, a 6 pps. rise compared to the same period of 2023. Rapid credit growth, especially in domestic currency loans, constitutes a potential risk to credit quality in the future[8]. As a precautionary measure, the Bank of Albania has increased the countercyclical capital buffer twice: from zero to 0.25% in June 2024 (whereby this level is to be met by banks in Q2-2025), and by an additional 25 basis points, to 0.50% (effective December 2025). Furthermore, considering the importance of mortgage loans in the banking sector lending activity and the price dynamics in the real estate market during the last years, the Bank of Albania started collecting quarterly data from banks on their exposure to the real estate sector. Albania joined the Single Euro Payments Area (SEPA) in November 2024. Once operational, SEPA will reduce settlement time and cost for euro payments, and facilitate trade, remittances, and other cross-border activity.

In March 2025, Albania's parliament approved the law establishing the Albanian Development Bank, which will be set-up as a deposit-taking institution. It is key that the development bank complies with best practices in terms of governance as well as appropriate supervision and regulation applicable to other deposit-taking institutions to ensure transparency, sound lending practices, adequate deposit protection and a level playing field in the banking sector. State guarantees should avoid creating moral hazard, leading the national development bank to engage in more risky operations, increasing the risks of bailouts, and ultimately posing risks to fiscal sustainability.

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7 The Bank of Albania's risk analysis shows that the external debt ratio is sensitive to currency depreciation and to rising interest rates. These risks are mitigated by ample international reserves.

8 The sovereign-bank nexus remains an additional source of vulnerability, given the high share of government debt holdings on banks' balance sheets.

Table 2:

Albania - financial sector indicators

	2020	2021	2022	2023	2024
Total assets of the banking system (EUR million)	13 156	14 980	16 426	18 900	21 659
Foreign ownership of banking system (%) *	69.4	68.8	66.2	64.4	63.3**
Credit growth (%, average)	6.1	6.9	11.2	2.2	9.1**
Deposit growth (%, average)	5.8	8.5	9.6	4.4	6.1**
Loan-to-deposit ratio (end of period)	54.7	54.8	47.1	46.1	49.1**
Financial soundness indicators (%, end of period)					
- non-performing loans to total loans	8.1	5.7	5.0	4.7	4.2
- regulatory capital to risk-weighted assets	18.3	18.0	18.1	19.4	19.8
- liquid assets to total assets	34.8	33.3	29.6	30.8	28.6
- return on equity	10.7	12.9	12.3	17.3	18.2
- foreign exchange loans to total loans	50.3	51.1	51.4	46.3	45.3**

* foreign equity ownership of total banks' equity.

** October 2024, from ERP, latest month reporting data.

Sources: Economic Reform Programme (ERP) 2025, IMF, Bank of Albania.

3. PUBLIC FINANCE

Fiscal performance improved in 2024, but capital spending was lower than in 2023. The budget deficit fell from 1.3% of GDP in 2023 to 0.7% of GDP in 2024. It significantly undershot the deficit target of 2.4% of GDP[9] and the ERP projection (1.5% of GDP). This was the result of buoyant revenues, a smaller increase in expenditures and a higher GDP denominator. Budgetary revenues increased by 10.4% in 2024, while total expenditures increased by 8%. Key tax categories registered strong increases, with VAT revenues increasing by 11.3% and excise tax by 8.6%. Supported by wage growth, including the rise in public sector wages, personal income tax revenues rose by 14.3%. Higher wages also supported the rise in social contributions, which increased by almost 12%. Meanwhile, profit tax revenues decreased by 11.7% (following an exceptional growth in 2023), while customs duties decreased by 1.8% (impacted negatively by the exchange rate appreciation). The overall improved revenue performance was underpinned by the expansion of the economic activity and strong domestic consumption. On the expenditure side, spending on wages increased by 12% (on the back of public wage reform), social insurance expenditure rose by 11%, while interest expenditure jumped by 14.4%. Capital spending was lower than in 2023 by 2.9%. As a share of GDP, they amounted to 4.6%, down from 5% of GDP in 2023. Overall, total revenue as a share of GDP increased from 27.2% in 2023 to 28.5% in 2024, in line with the ERP projection (28.6% of GDP). In contrast, total expenditure as a share of GDP was lower than expected in the ERP, standing at 29.2% in 2024 (up from 28.5% in 2023). Total revenues came to 99.5% of the revised budget revenue target (December revision), while the execution rate of total spending was 94.5% of the annual plan. As a result, the overall better-than-planned fiscal performance

[9] In 2024, the government amended the budget three times via normative acts (in February, August and in December). The first revision reduced the budget deficit target (to 2.4% of GDP) compared to the original one, while the August and December normative acts increased both budget revenue and spending and allocated funds to clear a large stock of arrears, while leaving the deficit target unchanged. Following the upward revision of nominal GDP in autumn 2024, the budget deficit target fell to 2.3% of GDP.

reflects under-execution of expenditure. Current expenditure was 3.6% lower than budgeted, while capital spending fell short by 12.7%. The primary surplus stood at 1.4% of GDP in 2024, much higher than expected.

Following a deterioration of the budget balance in 2025, the ERP projects a gradual improvement in the following two years. The ERP's fiscal strategy projects a gradual increase in public revenues as a share of GDP from 28.9% in 2025 to 29.3% in 2027, supported by a small increase in the tax revenue ratio (in 2026) and by higher revenue from grants (in 2027). The increase in tax revenue is foreseen to be supported by the implementation of the medium-term revenue strategy over 2025-2027. As a share of GDP, VAT revenues are expected to register the largest increase (from 9% in 2025 to 9.3% in 2027), while revenues from personal income tax, excises and profit tax are projected to remain stable (at 2.7%, 2.6% and 2.5% of GDP respectively). Meanwhile, social insurance contributions are set to decline by 0.1 pps per year over 2026-2027. The ERP projects total expenditure as a share of GDP to fall from 31.5% in 2025 to 30.8% in 2026-2027, underpinning the improvement in the budget balance over 2026-2027. Investment spending is set to peak in 2025 at 7.3% of GDP and then marginally decline in 2026-2027. Interest expenses are also projected to peak in 2025 (at 2.6% of GDP) and then remain stable at 2.5% of GDP over 2026-2027. The ERP expects the budget deficit to widen to 2.6% of GDP in 2025, and to fall to 1.9% in 2026 and further to 1.5% of GDP in 2027. The primary balance is forecast to be zero in 2025 and then register a surplus of 0.7-0.9% of GDP, supporting a reduction in the public debt ratio over this period. The ERP reaffirms the commitment to fiscal consolidation, which is mainly driven by containing current spending over 2026-2027.

Table 3:

Albania - composition of the budgetary adjustment (% of GDP)

	2023	2024	2025	2026	2027	Change: 2024-27
Revenues	27.2	28.6	28.9	29.0	29.3	0.6
- Taxes and social security contributions	22.5	23.2	24.0	24.1	24.1	0.9
- Other (residual)	4.7	5.4	4.9	4.9	5.1	-0.3
Expenditure	28.5	30.1	31.5	30.8	30.8	0.7
- Primary expenditure*	26.5	27.9	28.9	28.3	28.4	0.4
of which:						
Gross fixed capital formation	6.0	6.1	7.3	7.2	7.2	1.1
Consumption	8.5	9.4	9.3	9.1	8.9	-0.4
Transfers & subsidies	11.0	11.4	11.2	11.1	11.2	-0.2
Other (residual)	1.1	1.0	1.0	0.9	1.0	0.0
- Interest payments	2.0	2.2	2.6	2.5	2.5	0.3
Budget balance	-1.3	-1.5	-2.6	-1.9	-1.6	0.0
- Cyclically adjusted	-0.6	-0.6	-3.2	-1.6	-0.9	-0.4
Primary balance	0.7	0.7	0.0	0.7	0.9	0.2
- Cyclically adjusted	1.5	1.6	-0.6	1.0	1.5	-0.1
Gross debt level	57.5	55.2	54.8	54.0	53.2	-2.1

* Excluding arrears clearance.

Sources: Economic Reform Programme (ERP) 2025, Commission calculations.

The 2025 budget targets a deficit of 2.6% of GDP, accommodating higher capital expenditure. Compared to the 2024 budget outturn, the fiscal stance is set to be expansionary in 2025 as the budget deficit widens and the primary balance is expected to fall to zero. Total government revenue for 2025 is projected to reach 28.9% of GDP, which reflects an increase of 0.4 pps compared to the 2024 outcome. The implementation of the medium-term revenue strategy (MTRS) contributes about 1/3 to this increase[10], thanks mainly to expected improvements in tax and customs administration. Revenue is also set to be boosted by fighting the informal economy and by increased economic activity and rising wages. The ERP does not assume tax policy measures. Expenditures are set to increase by much more than revenues, from 29.5% of GDP in 2024 to 31.5% of GDP in 2025. This is partly driven by higher capital spending, which is projected to rise from 4.6% to 6.2% of GDP. According to the budget, these investments aim to support significant projects in infrastructure, transport, digitalisation, healthcare, and education. Current spending is expected to increase by 0.4 pps to 25% of GDP. Overall, the revenue targets of the fiscal strategy 2025-2027 seem plausible, supported by robust economic expansion. At the same time the expected revenue gains from improvements in tax and customs administration may seem optimistic. As regards the expenditure side, capital spending may be overestimated given past experience with under-execution of public investments.

The public debt ratio fell below 55% of GDP in 2024 and it is projected to continue decreasing, albeit at a more moderate pace. The government debt ratio declined from 57.5% of GDP in 2023 to 54.7% of GDP in 2024, which is 0.5 pps lower than the level projected by the ERP and much below the pre-pandemic level of some 65% of GDP. In 2024 the debt reduction was supported by nominal GDP growth, the lek's appreciation and a fiscal primary surplus, which was higher than planned. In view of the improved public finance parameters, Albania's sovereign debt credit rating was upgraded twice in 2024 (in March by S&P and in October by Moody's)[11], although it remains below investment-grade. For 2026-2027, the ERP projects a slow pace of debt reduction with the debt-to-GDP ratio forecast to 53.2% in 2027. Thereafter, the macro-fiscal framework of the government (covering the period up to 2035) projects the government debt ratio to continue its downward path - in line with the national fiscal rule stating that the public debt ratio must be lower than the preceding year, until the debt level reaches and remains below 45% of GDP.

The public debt structure developed favourably, but efforts need to be sustained to further improve its maturity profile. The share of foreign currency debt in total debt has been declining in recent years, standing at 42% in 2024 (down from 45.5% in 2023). This trend, which benefited from the lek's appreciation is in line with the medium-term debt strategy which limits foreign currency-denominated public debt to 50% to contain exchange rate risks. The average time to maturity of debt has increased in recent years, but it is still low at 2.56 years. To mitigate this vulnerability, the government has recently (in the beginning of 2025) introduced a new long-term instrument, a 20-year domestic bond as a trial[12]. There are also improvements in decreasing the share of short-term debt, in line

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[10] In nominal terms total government revenues are projected to increase from ALL 710 041 million in 2024 to ALL 757 036 million in 2025. The MTRS projects to bring EUR 15 963 million revenues in 2025, which represents 34% of the revenue increase (which is ALL 46 995 million).

[11] In March 2024, S&P upgraded Albania's sovereign debt credit rating by one notch, from B+ to BB-. In October 2024, Moody's upgraded Albania's sovereign debt credit rating from B1-positive to Ba3-stable. Furthermore, in March 2025, S&P upgraded Albania's sovereign debt credit rating from BB- to BB.

[12] The volumes issued are modest so far, but the first auction attracted a high level of investor interest.

with the objective of lowering refinancing risks[13]. External debt consists mainly of long-term loans as well as Eurobonds. In February 2025, the government issued a EUR 650 million Eurobond at highly favourable market conditions[14]. The proceeds will cover a large part of external refinancing needs in 2025. Gross financing needs average 17% of GDP per year over 2025-2027 with debt repayments peaking in 2025 and then again in 2027.

The banking sector is the main source of domestic financing, holding about 65% of the domestic debt stock in 2024, up from about 63% in 2023[15]. Meanwhile, the non-banking sector holds about 17%, retail investors have 10% and Bank of Albania holds about 8% of domestic debt.

Albania

Composition of changes in the debt ratio (% of GDP)

	2023	2024	2025	2026	2027
Gross debt ratio [1]	57.5	55.2	54.8	54.0	53.2
Change in the ratio	-6.6	-2.3	-0.4	-0.7	-0.9
Contributions [2]:					
1. Primary balance	**-0.7**	**-0.7**	**0.0**	**-0.7**	**-0.9**
2. 'Snowball effect'	**-3.8**	**-0.6**	**0.0**	**-0.1**	**-0.1**
Of which:					
Interest expenditure	2.0	2.2	2.6	2.5	2.5
Growth effect	-2.3	-2.1	-2.0	-2.1	-2.0
Inflation effect	-3.5	-0.7	-0.6	-0.6	-0.6
3. Stock-flow adjustment	**-2.1**	**-1.0**	**-0.4**	**0.1**	**0.2**

[1] End of period.
[2] The 'snowball effect' captures the impact of interest expenditure on accumulated debt, as well as the impact of real GDP growth and inflation on the debt ratio (through the denominator).
The stock-flow adjustment includes differences in cash and accrual accounting, accumulation of financial assets, and valuation and other effects.

Source: Economic Reform Programme (ERP) 2025, Commission calculations.

Debt dynamics

The debt ratio fell in 2024 supported by the surplus in the primary balance and a favourable snowball effect, which was however much less strong than in 2023 as inflation declined rapidly while interest costs rose. In 2026-2027, it is expected to contribute to debt reduction only marginally as interest costs are forecast to increase further while inflation remains low.

A positive primary balance remains the key debt-decreasing factor in 2026-2027. Overall, the projected debt path is plausible and could shift to a slightly lower level given that the debt ratio at end-2024 was slightly lower than the ERP's projection (at 54.7% of GDP).

Albania remains exposed to contingent liabilities from state-owned enterprises (SOEs) and public-private partnerships (PPPs), and further enhancing fiscal risk monitoring remains important. Fiscal risks continue to stem from loans and guarantees to SOEs, PPPs and the accumulation of arrears. SOEs receive loans from the central government, but repayment is unpredictable, while the financial viability of some of these companies is weak[16]. The stock of guaranteed debt (fully accounted for in the public debt figures) amounted to 1.5% of GDP at the end of September 2024, with around 80% of the total state guarantees belonging to the energy sector, while about 9% cover the water utilities sector. Due to the risks posed to the budget, monitoring SOEs is crucial. The Fiscal

[13] In the domestic government debt portfolio, the weight of debt maturing within one year declined from 44.7% in 2023 to 39% in 2024.

[14] The bond has a 10-year maturity with a coupon of 4.75%. The bond issuance generated high demand among investors as reflected in the highest achieved bid-to-cover ratio (of 4.3), while and the base of investors was diversified.

[15] This ratio has been relatively stable, fluctuating between 58% and 64% in the last 10 years.

[16] Furthermore, many SOEs also benefit from direct subsidies from their line ministries, with limited transparency regarding the activities these subsidies are expected to finance.

Risk Unit of the Ministry of Finance expanded the number of monitored SOEs to 11[17]. More recently, in 2024 the authorities have improved the monitoring of the balance sheet of SOEs, partly through the application of the IMF's SOE Health-check Tool. Furthermore, technical assistance is ongoing to improve SOEs' financial reporting practices and the monitoring of their financial performance[18]. In 2024, efforts have been made in preparing a stand-alone Fiscal Risk Statement, capturing a whole range of fiscal risks (including those related to concessions, PPPs, SOEs, arrears and other unforeseen events, such as natural disasters). Nevertheless, the report was not published. A Fiscal Risk Directorate was set up in 2024, staffed so far with four specialists while the position for the director remains to be filled. Overall, despite progress, the practice of annually preparing and publishing a Fiscal Risk Statement is not yet in place, while gaps remain with respect to monitoring SOEs and PPPs[19]. Capacities for assessing the long-term costs of ageing and the sustainability of the pension system are weak, but the government has recently engaged with the World Bank to receive technical assistance on pension modelling, which could form the basis of a pension reform proposal.

Sensitivity analysis

The ERP presents the dynamics of fiscal key indicators over 2025-2027 under three different scenarios: baseline, optimistic and pessimistic. The alternative scenarios are constructed with varied economic growth assumptions for each year. In particular, the real GDP growth rates that underpin the optimistic and pessimistic scenarios deviate by +0.5 pps and -1.5 pps respectively from the baseline growth scenario of 3.9% in 2025, 4% in 2026 and 3.9% in 2027.

In the optimistic scenario, total revenues as a share of GDP are identical to the baseline scenario. Capital spending as a share of GDP is expected to remain identical or very close to the baseline (0.1-0.2 pps higher than the baseline in 2026-2027), while current spending as a share of GDP is gradually being reduced (ultimately 0.3 pps lower than in the baseline in 2027). The fiscal deficit is smaller in the optimistic scenario only in 2026 and 2027. The ERP explains that generally, there is an expectation of a more robust fiscal consolidation in the optimistic scenario and a fiscal deficit relaxation in the pessimistic scenario, reflecting a countercyclical response to different assumed dynamics of the economic cycle.

In the pessimistic scenario fiscal policy easing, compared to the baseline, would be implemented to the extent that key public finance parameters (such as the debt-to-GDP ratio and primary balance) stay within the fiscal rules set in the Organic Budget Law. In the pessimistic scenario, the revenue ratio is assumed to be 0.5 pps below the baseline. Capital spending in 2025-2027 is reduced compared to the baseline by 0.8% of GDP on average each year, while current expenditure is 0.2 pps above the baseline (and even more, 0.6 pps in 2027). The fiscal deficit is set to be higher than in the baseline scenario (by 0.1 pps in 2026 and 0.4 pps in 2027), except in 2025 when it is lower.

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17 Current monitoring and reporting include detailed discussion of the three major energy sector SOEs' quarterly profit/loss position, their receipt of government financial support, and the stock of outstanding guarantees, alongside a short summary description of the financial position of the other SOEs.

18 At the same time, not all SOEs are publishing online their financial performance reports. More details on key SOEs issues and developments can be found in Western Balkans Competitiveness Outlook 2024: Albania, by OECD.

19 The Ministry of Finance, together with Ministry of Economy, Culture and Innovation, needs to ensure that best practices are followed in terms of SOE and PPP management and oversight.

The public debt ratio is set to decrease in all three scenarios, including in the pessimistic one (although the reduction is marginal), while the primary balance is non-negative, in line with the fiscal rules.

The adopted medium-term revenue strategy (MTRS) focuses on increasing public revenue by enhancing tax and customs administration, but reducing tax expenditure could further boost revenues. At less than 30% of GDP, the public revenue ratio is lower than in regional peers. After protracted preparations, the MTRS was adopted by the Council of Ministers on 26 December 2024, aiming at increasing revenues by ALL 64.8 billion (or about 2.6% of 2024 GDP) over 2024-2027. The extra revenues are projected to be generated from improvements in tax administration (ALL 51 billion), fiscal policies (ALL 9.28 billion) and better customs administration (ALL 4.5 billion). Thus, most of the expected revenue gains (85%) would come from efficiency gains in tax and customs administration, rather than from tax policy measures. At the same time, Albania is foregoing sizeable government revenue due to tax expenditure (such as exemptions, deductions, credits, deferrals, etc.); such tax expenditure has recently been estimated at 4-5% of GDP[20]. The recently amended Income Tax Law extends the deadline from 2024 to 2026, giving luxury hotels time to apply for a 10-year income tax exemption, which goes against Albania's commitment to increase government revenues. An assessment of tax exemptions features both in the MTRS (under the first pillar) and under the Reform Agenda. While such an assessment is important, there is a clear need to follow-up with concrete proposals and actions, and eliminate those exemptions that are not well justified. Furthermore, property tax reform should be accelerated with the adoption of the new property tax law the government has been working on[21].

The regulatory framework for public investment management has been improved in recent years, but challenges remain. A Council of Ministers decision from December 2022 improved Albania's public investment management (PIM) framework. It introduced a Single List of Projects of National Importance (NSPP) together with comprehensive procedures and rules for identifying, preparing, proposing, evaluating, implementing, and monitoring public investment projects. The decision mandates that all new public investment projects exceeding the expenditure thresholds set by the minister of finance are classified as investment projects of strategic importance, and they are subject to an additional evaluation process for their inclusion in the NSPP. The projects included in the NSPP support the main priorities and policies and of the Albanian government, aligning with the national strategy for development and integration 2022-2030 and with sectoral strategies. Only after being included in the NSPP, ranked, and approved by a decision of the Council of Ministers can these projects be incorporated into the medium-term budget programme (MTBP) or the annual budget. In February 2024 the government updated the PIM guidelines, introducing clarifications, including on the role of the Ministry of Finance

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20 According to national sources, such as the MTRS which makes references to the "Tax Expenditures 2021-2022" report.

21 In addition to closing the tax-revenue gap, efficiency gains from better spending (both in terms of allocations and in terms of ensuring better outcomes relative to allocations) could also be obtained. In this regard, the planned spending reviews are critical as per the Public Finance Management Sectoral Strategy 2023-2030.

in certain situations, and of the Agency for Strategic Planning (SASPAC)[22].The latest updated NSPP list was approved in February 2025[23]. Yet the planning and execution of public investment projects continues to face significant obstacles in the form of capacity constraints, incomplete project proposals; delays and cost overruns, as well as an occasional lack of adherence to procedures[24].The recurrent under-execution in capital spending is a clear indication that shortcomings exist in the operationalisation of the new legal framework and of the NSPP.

Albania does not have a fiscal council yet, but preparatory work for setting-up such an institution began. In 2024, the government requested and received technical assistance from the World Bank for identifying possible options for setting up a fiscal council. An options paper was prepared, outlining different models for fiscal councils, their scope, their institutional set-up and core tasks. The authorities' preferred option is to set up a stand-alone independent fiscal institution, which is in line with the Commission recommendations. As the next step, drafting of the necessary legislation is planned by the end of 2026 according to the new public finance management strategy (adopted in June 2024).

Medium-term fiscal planning is underpinned by compliance with the fiscal rules. Overall, the assumed fiscal path of a widening deficit in 2025 and an improvement in subsequent years would ensure a non-negative primary balance and a decreasing debt-to-GDP ratio, in compliance with the fiscal rules set by law. The commitment to the fiscal rules is strongly underlined in the ERP. A non-negative primary balance is key for keeping in check the country's gross financing needs and for ensuring continued debt reduction in 2025-2027. At the same time, government finance statistics need further improvements to align them with the European System of Accounts (ESA 2010) methodology.

4. MAIN MACRO-RELEVANT STRUCTURAL CHALLENGES

The Commission approved Albania's Reform Agenda in October 2024[25]. In its Reform Agenda 2024-2027, Albania commits to socio-economic and fundamental reforms to accelerate growth and convergence with the EU. Subject to the implementation of reforms, under the Reform and Growth Facility[26], the allocation for Albania amounts to EUR 922 million with EUR 265 million planned in grants and EUR 657 million in loans. Of the total amount of support, EUR 429 million is to be allocated in the form of budget support, with the remaining EUR 493 million to be allocated for the financing of infrastructure projects and implemented through the Western Balkans Investment Framework (WBIF). In

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[22] The latest changes to the legal framework were done in March 2025, when the government approved amendments to DCM No. 887/2022 "On the procedures of the public investment management".

[23] The NSPP is approved annually by a decision of the Council of Ministers, no later than 31 January. If necessary, the NSPP may be reviewed by 1 July.

[24] Another challenge in the context of public investments is the harmonisation with the Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) Directives. Substandard environmental impact assessment procedures pose risks to environment and ecosystems (OECD (2024), Western Balkans Competitiveness Outlook 2024: Albania).

[25] Reform Agendas of the Western Balkans were adopted by the Commission Implementing Decision on 23 October 2024. https://enlargement.ec.europa.eu/commission-implementing-decision-approving-reform-agendas-and-multiannual-work-programme-under_en

[26] https://eur-lex.europa.eu/eli/reg/2024/1449/oj/eng

December 2024, Albania submitted to the Commission its request for pre-financing under the Reform and Growth Facility, asking for the release of 7% of the total amount available for Albania. Albania's Reform Agenda is aligned with the structural reforms that are part of the 2024 ERP as well as the common Policy Guidance agreed upon at the Economic and Financial Dialogue of May 2024.

The widespread informal economy undermines competitiveness and social protection and reduces the tax base. High levels of informality undermine fair competition, as businesses operating in the informal sector often avoid taxes and regulatory compliance, creating an uneven playing field with formal businesses. Weak governance of SOEs also contributes to market distortions and unfair competitive conditions. The informal economy also impacts labour rights, with many workers lacking formal contracts, social security, and legal protections. Businesses and workers in the informal sector often do not register their activities or underreport income, reducing the government's ability to collect income taxes, value added taxes, and social security contributions. Compared to other Balkan countries, Albania has been lagging behind in the tax revenue-to-GDP ratio. The tax revenue gap constrains public investment in infrastructure, healthcare, education, and social services, limiting the government's capacity to support inclusive and sustainable growth. The Reform Agenda includes measures to reduce the informal economy through measures aimed at improving the business environment, and to enhance the rule of law. A critical measure is the adoption and implementation of the medium-term revenue strategy, which aims to increase domestic revenue mobilisation and to improve the tax system. Legal reforms are planned to strengthen the transparency and efficiency of state cadastre services, by digitalising all paper based immovable property titles and cadastral maps and by adopting a land policy. Furthermore, the agenda includes measures for improving SOEs governance (by implementing transparent and merit-based procedures for appointing independent board members) and the adoption of a PPP/concession law which is in line with the EU *acquis*. Importantly, Albania also commits to adopting the unified investment law and main by-laws in line with EU best practices, by December 2026.

The security of electricity supply remains an issue, while other challenges are linked to aligning legislation with EU standards and ensuring electricity market integration with the EU. One of the main challenges is Albania's heavy dependence on hydropower for electricity production, making the energy supply vulnerable to climate change and fluctuations in precipitation. The energy system's reliance on hydropower also leads to dependency on energy imports during specific periods when domestic production is insufficient. Despite an increase in domestic electricity production in 2023 and increased solar energy capacity, the need to diversify energy production is clear. Additionally, other key challenges include: aligning national legislation on energy with EU standards, enabling electricity market coupling with the EU, establishing an intraday electricity market, and implementing gradual tariff adjustments to market prices while addressing energy poverty. The Reform Agenda includes measures that help address these challenges. It emphasises developing a competitive and transparent action plan for renewable energy, adopting the Renewable Energy Sources Implementing Regulations, streamlining permitting and promoting renewable energy communities. Additionally, the agenda aims to improve energy efficiency through a long-term building renovation strategy, support the introduction of an Emissions Trading System (ETS) by 2030, and strengthen the overall sustainability and resilience of the energy sector.

As regards digitalisation, key challenges include the need to enhance digital infrastructure and ensure cybersecurity and data protection. The country faces gaps in providing high-speed broadband access, particularly in rural areas, and must update its legal and regulatory frameworks to align with EU standards, including the Network and

Information Systems Directive 2 (NIS2 Directive) for cyber resilience[27]. The agenda aims to comply with the EU Digital Identity regulation by implementing a Digital eWallet for public services, facilitating secure electronic identification, and improving access to digital government services. It also includes updating the framework for cyber resilience in line with the NIS2 Directive. Additionally, Albania plans to develop a secure and sustainable digital infrastructure by adopting broadband legislation and implementing measures to secure 5G infrastructure roll-out, all in compliance with EU standards. These measures aim to accelerate digital transformation, improve public service delivery, and support the growth of Albania's digital economy.

The labour market and education system in Albania also face structural issues. Despite falling in recent years, the unemployment rate is still high (9.6% in Q4-2024, for the age group 15-64), particularly among young people and women, and the female labour force participation rate is still low. Furthermore, there is a persistent issue with informal employment, which limits workers' access to social protection and rights, including pensions. Emigration[28], especially of skilled workers, exacerbates labour shortages in key sectors, contributing to 'brain drain' that hampers economic growth and innovation. There is a significant skills mismatch between labour market needs and educational outputs. The lack of effective vocational education and training (VET), combined with insufficient active labour market policies, hinders workforce adaptability and limits opportunities for higher-quality employment. Albania's education system is faced with low educational attainment and high dropout rates, particularly in rural areas and among marginalised communities. The quality of education is often hindered by outdated curricula, insufficient teacher training, and a lack of modern teaching materials and infrastructure. Furthermore, limited access to early childhood education and inadequate support for vocational and technical education reduce opportunities for lifelong learning and career readiness. The education system also struggles with inclusivity, particularly for children with disabilities and those from disadvantaged backgrounds. The Reform Agenda contains several measures concerning human capital development, including on enhancing digital skills. They focus on improving education quality, aligning vocational education and training with labour market needs, and advancing digital literacy. Key initiatives include revising the VET content and training programmes (including development of VET curricula), setting up two more Sectoral Skills Committees, modernising primary and secondary education curricula linking education with labour market needs, and training train teachers in the updated curricula. To enhance digital skills, the agenda proposes initiatives to provide information and communication technology (ICT) equipment to public schools and universities, integrate digital subjects into education, and develop a certification framework for digital skills programmes.

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[27] Updates to the legal framework were made in 2024 to strengthen cybersecurity.

[28] On the back of mass emigration and declining birth rates, Albania is experiencing a significant demographic decline, with its population decreasing by approximately 14% between 2011 and 2023, from 2.8 million to 2.4 million residents (according to the preliminary results of the Population and Housing Census 2023). Population projections show that Albania is likely to record a large fall in population over the next three decades (United Nations, Department of Economic and Social Affairs, Population Division (2024). World Population Prospects 2024).

5. CONSISTENCY OF THE REFORM AGENDA WITH THE ERP'S MACRO-FISCAL FRAMEWORK

The ERP's macroeconomic baseline does not account for the potential impact of the Reform Agenda. The ERP's baseline projections of an average of 3.9% GDP growth rate annually over 2025-2027 does not factor in the growth potential that could be unlocked through the successful implementation of the Reform Agenda supported by the Reform and Growth Facility[29]. The ERP explains that the Refom Agenda is considered an upside risk to the growth projections. The ERP does not quantify the economic impact of the key measures[30]. Nevertheless, the projected increase in investments in 2025 suggests that expected investments financed under the Reform Agenda have been taken on board to underpin the investment growth projections. The ERP also provides qualitative analysis on how reforms under the Reform Agenda are expected to substantially enhance the country's potential growth trajectory over medium and long term. The Reform Agenda is structured around five key pillars/ policy areas: business climate, human capital development, digital transformation, energy transition, and rule of law. The ERP explains the benefits, channels and how the implementation of reforms under each policy area could lead to better growth outcomes.

The ERP explains that the implementation of the Reform Agenda has implications for public finances, but the fiscal impact is mostly not quantified. The ERP provides a qualitative analysis on how the Reform Agenda affects both government revenues and expenditures, while supporting the overarching objectives of fiscal consolidation and debt sustainability. The Reform and Growth Facility provides significant support through a mix of grants and concessional loans, thus enhancing fiscal space. The medium-term revenue strategy, a key measure of the Reform Agenda, aims to modernise revenue collection and generate higher revenues which are specified for each year between 2025 and 2027. Overall, the implementation of reforms is expected to boost revenue from corporate income tax, personal income tax, VAT, and customs through various (direct or indirect) channels. For example, enhanced investment should expand the corporate income tax base while also generating additional employment and thus personal income tax revenues. Improved productivity should support wage growth, further expanding income tax revenues. Enhanced economic activity should boost consumption and thus VAT revenues, while improved trade facilitation should support customs revenues. On the expenditure side, the implementation of the Reform Agenda will entail higher public investments.

Next year's ERP could provide more clarity on the measures' budgetary impact, particularly as regards capital spending. The ERP projects a rise in capital investments in 2025, but it does not explain how much of this increase is linked to Reform Agenda implementation. Furthermore, the ERP does not clarify whether the financing under the Reform Agenda is considered in the projection of grants and other revenues. Going forward, the programme could detail the projected expenditure linked to the

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[29] To be noted that the previous ERP, prepared in 2023, projected a similar growth path of 3.9%-4% for 2025-2026.

[30] The IMF Article IV report from January 2025 provides some quantitative estimates regarding the impact of the EU's Growth Plan in Albania. According to the report, depending on public investment management quality, capital spending financed by the Reform and Growth Facility could cumulatively raise Albania's GDP level by between 4.2 and 7.9 percent over the next decade (assuming that it does not replace other investment spending). Combining the additional funding with the required reforms under the Reform Agenda and integration into the EU Single Market, the IMF estimates that gains to GDP per capita could exceed 30 percent over the next 15 years.

implementation of the Reform Agenda measures. The next ERP should also provide some quantification of the fiscal impact.

ANNEX 1: OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2024

Every year since 2015, the Economic and Financial Dialogue between the EU and enlargement partners has adopted targeted policy guidance (PG) for all partners. The guidance represents the participants' shared view on the policy measures that should be implemented to address macro-fiscal vulnerabilities and structural obstacles to growth. The underlying rationale of the guidance is similar to that of the country-specific recommendations usually adopted under the European Semester for EU Member States. Implementation of the guidance is evaluated by the Commission in the following year's ERP assessments.

The following table presents the Commission's assessment of the implementation of the 2024 policy guidance jointly adopted at the Economic and Financial Dialogue between the EU and the Western Balkans Partners, Türkiye, Georgia, Republic of Moldova and Ukraine at ministerial level on 14 May 2024.

Overall: Partial implementation (55.6)[31]	
2024 Policy guidance	**Summary assessment**
PG 1: Ensure compliance with the fiscal rules laid down in the Organic Budget Law requiring a non-negative primary balance and a downward path of the public debt-to-GDP ratio and accelerate the pace of fiscal consolidation in case of better-than-expected economic and revenue performance.	There was **substantial implementation** of PG 1: **1) Full implementation:** Albania complied with the fiscal rules. In 2024, the primary balance was initially targeted 0.2% of GDP, while the public debt-to-GDP ratio was expected to decline from 57.5% of GDP in 2023 to 55.2% in 2024. The budget for 2024 was revised three times throughout the year via normative acts. The first budget revision took place in February 2024. Revenues for 2024 were revised upwards, to about ALL 687 billion or 28.2% of GDP (from 27.8% in the original budget), while total expenditures were also revised upwards, but the increase was smaller, to ALL 744 billion or 30.6% of GDP (from 30.3% in the original budget). Therefore, the first revision increased the level of ambition with respect to the surplus of the primary balance (set at 0.4% of GDP vs 0.2% of GDP), while the revised deficit target was slightly lower at 2.4% of GDP (vs 2.5% of GDP). Higher-than-planned budget revenues for the first seven months of the year supported a second budget revision which took place in August. Revenues were again revised upward (to ALL 714 billion or 29.3% of GDP), but so was expenditure (to ALL 771 billion or 31.7%). As a result, the deficit remained unchanged (at ALL 57 billion or 2.4% of GDP). Thus, the pace of fiscal consolidation was not accelerated via the second normative act, despite better-than-expected revenue performance. The third budget revision took place in December and

[31] For a detailed description of the methodology used to assess policy guidance implementation, see Section 1.3 of the Commission's overview and country assessments of the 2017 economic reform programmes, available at https://ec.europa.eu/info/publications/economy-finance/2017-economic-reform-programmes-commissions-overview-and-country-assessments_en

	focused on reallocating spendings. Revenues were maintained at the same level (at ALL 714 billion or 29.3% of GDP), expenditures were not changed either (at ALL 771 billion or 31.7% of GDP), and the budget deficit remained unchanged (at ALL 57 billion or 2.4% of GDP). Nevertheless, budget execution for the whole year shows a deficit of 0.7% of GDP, much lower than planned, while the primary surplus was at 1.4% of GDP, also outperforming the target. Partly due to the better-than-expected budget outcome, the public debt ratio fell by more than expected, to 54.7% at the end of 2024. Therefore, the government accelerated the pace of fiscal consolidation. On a less positive note, the budget overperformance was partly due to capital spending under-execution.
Reduce the emergence of new arrears and the overall outstanding stock, ensuring that arrears do not exceed 2% of total expenditure by end-2024.	**2) Partial implementation:** The stock of arrears stood at ALL 10.55 billion at the end of September 2024, increasing by 34.4% compared to the end of 2023 (when the stock stood at ALL 7.85 billion). Thus, arrears continue to pose an issue as they continue to accumulate. The pace of accumulation seems to be slower than in the previous year as the 2024 nine-month stock of ALL 10.55 billion was 48.1% lower than the level recorded in September 2023, of ALL 20.33 billion. At the end of 2024, the stock of arrears stood at ALL 5.81 billion, lower than a year earlier (ALL 7.85 billion). As a share of total expenditure they stood at 0.8%, thus the annual target of '2% of total expenditure by end-2024' is met. Nevertheless, the reliance on *ex post* clearance of arrears through budget reallocations (normative acts) should gradually be reduced.
Increase tax revenue as a share of GDP in a growth-friendly way, including by improving tax administration, increasing registrations for VAT, and reducing undeclared work and tax fraud; revise the medium-term revenue strategy and ensure its implementation.	**3) Substantial implementation:** According to the budget execution, tax revenues (including contributions) reached ALL 658.8 billion in 2024, up from ALL 598.6 billion in 2023. As a share of GDP, tax revenues (including contributions) increased by 1.1 pps. to 26.4% (from 25.3% in 2023). When excluding social contributions, the increase in tax revenues as a share of GDP is smaller, from 19.1% in 2023 to 19.9% in 2024. The medium-term revenue strategy (MTRS) 2024-2027 has been revised and adopted by the Council of Ministers on 26 December 2024. The MTRS aims to increase tax revenues by ALL 64.8 billion over 2024-2027 and bring tax revenues (including contributions) to 27.7% of GDP in 2027. For 2024, the MTRS mentions expected revenues of ALL 18.8 billion. Nevertheless, the ERP is not clear on the specific measures from MTRS implemented throughout 2024 that generated additional revenues.
PG 2: Improve fiscal risk analysis by building capacity in the related new department, establishing a risk	There was **limited implementation** of PG 2: **1) Partial implementation:** A stand-alone Fiscal Risk Statement has been drafted during 2024

management methodology and publishing a comprehensive Fiscal Risk Statement that covers state guarantees, on-lending to public entities and risks stemming from SOEs and PPPs and identifies risk mitigation measures. Increase SOE transparency and accountability by publishing their annual financial performance reports Facilitate the implementation of the National Single Project Pipeline (NSPP), including by ranking the projects on the list; and advance the integration of PPPs into the NSPP.	(covering 2023 data), including risks stemming from SOEs, concessions/PPPs and contingent liabilities. It has been under review since May 2024, but it has not yet been published. A new Directorate of Fiscal Risks has been set up under the Ministry of Finance (under the General Budget Directorate). By the end of January 2025, three new employees (specialists) have been recruited, bringing the total staff at four specialists. The position for the director is still vacant. **2) Limited implementation**: Albania has a legal framework requiring SOEs to publish their consolidated financial reports. Not all SOEs are publishing their financial reports. **3) Limited implementation:** Within the NSPP, projects are categorised based on their funding status into 'mature,' 'partially matured,' and 'immature.' This classification reflects the readiness of projects to secure financing. As of August 2024, the NSPP included 51 projects labelled as 'mature,' 53 'partially matured' projects and 33 'immature' projects. There is a methodology for ranking the projects within NSPP, however the State Agency for Strategic Programming and Aid Coordination (SASPAC) is working to improve it. To facilitate the implementation and enhance the roll-out of the new PIM legislation (set out in 2022 via DCM 887), the Ministry of Finance worked with the Albanian School of Public Administration (ASPA) to develop a PIM curriculum for trainings, which ultimately aim to enhance understanding of requirements set by DCM 887. The curriculum covers all the customary requirements for public investment project evaluation, logical frameworks, standardised economic and financial appraisal tools, risk analysis with an emphasis on recent process enhancements such as climate risk screening. This curriculum has been completed in September 2024 and approved by the ASPA in January 2025. The new PIM curriculum is now part of the 2025 training plan with appropriate budget. In February 2024, the government updated the PIM guidelines (decision No 70), introducing clarifications, including on the role of the Ministry of Finance in certain situations, and of SASPAC. PPPs and public investment projects stemming from the own source revenues of SOEs, and subnational governments are not covered by DCM 887. Projects proposed as concessions or PPPs may bypass the PIM procedures, as the proposal and approval process for PPPs follows the procedure set out in the Law on Concessions and PPPs, which is currently under review. This creates gaps in transparency and consistency.
PG 3: Ensure a sufficiently tight monetary policy stance as long as necessary to anchor inflation expectations at levels consistent with price	There was **partial implementation** of PG 3: **1) Full implementation:** Monetary policy has contributed to bringing inflation below the 3% target, and inflation expectations also declined to rates

stability, underpinned by a thorough assessment of price developments and possible second-round effects and by publishing additional indicators of underlying price pressures.	consistent with the inflation target. The Bank of Albania has begun publishing additional indicators of underlying price pressures, including core inflation, net core inflation, CPI excluding food and energy, trimmed mean core inflation and weighted median core inflation. It has also provided a methodological note on this topic.
Enhance risk-based supervision in line with best international and European practices, including by further strengthening the reporting framework across the banking system, applying macroprudential measures to mitigate risks and improve data collection to enable a comprehensive assessment of financial sector risks.	**2) Substantial implementation:** The IFRS 9 is expected to be fully implemented for central bank reporting within this year, following several postponements. This will help banks avoid potential dual reporting under both Albanian and international standards. The central bank has also started to collect detailed real estate data, developing analytical frameworks to better assess real estate-related risks. Additionally, it is gathering borrower-based data, with the aim to expand this dataset before designing borrower-based macroprudential measures.
Continue to promote saving and borrowing in domestic currency, limit unhedged lending and the use of foreign currency in the real economy, with all signatories of the Memorandum of Cooperation taking appropriate action.	**3) No implementation:** While the Bank of Albania implemented measures taken in accordance with the Memorandum of Cooperation earlier, the government has made no progress and does not intend to introduce measures to foster the use of the national currency. The share of unhedged foreign currency borrowing in total lending declined, but it remains non-negligible.

ANNEX 2: COMPLIANCE WITH PROGRAMME REQUIREMENTS

The government of Albania submitted the 2025-2027 ERP to the Commission on 17 January 2025.

Inter-ministerial coordination

The drafting and preparation of the 2025-2027 ERP was coordinated by the Ministry of Finance, with contributions from various ministries and agencies.

Stakeholder consultation

The ERP document does not mention any public consultation.

Macro framework

The programme presents a clear and concise picture of past economic developments and covers relevant data available at the time of submission. The information provided is coherent, concise and well structured. The macroeconomic framework provides a good basis for policy evaluation and discussions. The ERP does not provide an analysis of labour productivity, skills shortages, migration, brain drain or details on key investment projects or the investment environment. Statistical tables were complete.

Fiscal framework

The fiscal framework is detailed, in line with stated policy objectives and consistent with the ERP macroeconomic framework. The information about discretionary measures planned for 2025 and 2026 is rudimentary and fragmented. There is no analysis on the long-term sustainability of public finances (demographic developments, pensions, health expenditure). Albania's fiscal reporting does not follow ESA2010 standards, and therefore does not meet the Commission's fiscal notification requirements.