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COMMISSION STAFF WORKING DOCUMENT

ECONOMIC REFORM PROGRAMME

OF

**ALBANIA
(2022-2024)**

COMMISSION ASSESSMENT

The economic reform programme (ERP) was submitted on 31 January 2022.

The economic consequences of Russia’s war against Ukraine may render the macro-fiscal scenarios presented in the ERP partially obsolete. The Commission will publish its updated macroeconomic and fiscal projections for candidate countries, reflecting the expected impact of the war against Ukraine and related sanctions, in its spring economic forecast in mid-May 2022.

The short-term macro-fiscal outlook may change considerably. However, the major medium-term fiscal and structural reform challenges and priorities identified in this assessment remain valid irrespective of the short-term outlook. Appropriate policy responses are essential to ensure a sustained economic recovery, greater resilience and fiscal sustainability.

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1. EXECUTIVE SUMMARY

In 2021, the economic rebound is estimated to have been stronger than expected. The economic reform programme (ERP) estimates that the economy grew by 8.7% in 2021, and recovered above pre-crisis levels in most segments. A strong rebound of exports including tourism, high public investment including in post-earthquake reconstruction and the continuing accommodative policy all supported the recovery. This helped the labour market to recover almost all the ground lost during the COVID-19 crisis. The fiscal deficit, at 4.5% of GDP, was 2.3 percentage points (pps.) lower than planned because of strong revenue growth, underspending of the capital budget and the much stronger than expected growth in nominal GDP¹. Notwithstanding a debt-increasing Eurobond issuance to pre-finance the 2022 balance, as well as concessional lending and public guarantees for the state-owned electricity distributor, this led to a decrease in the debt-to-GDP ratio to 73.2%, much below the earlier estimate of 80.1% which the ERP fiscal scenario is based on.

The ERP projects steady economic growth and a gradual fiscal consolidation relying mainly on lower capital expenditure in 2023. The ERP projects economic growth to stabilise at an average of 4% in 2022-2024, but this projection could not take into account downside risks from a potentially protracted impact resulting from Russia's war against Ukraine, in particular from higher energy and food prices and less dynamic external trade with main trading partners in the EU. Investment and private consumption are expected to remain the main growth drivers, supported by net exports. Solid employment growth is estimated to lower the unemployment rate below 10%. The implementation of the medium-term revenue strategy (MTRS) is projected to gradually increase the revenue ratio from 2023. Together with lower investment expenditure (after post-earthquake reconstruction ends) it is expected to bring the deficit below 3% and the primary balance into surplus in 2024. This is projected to help lower the debt ratio by 4.4 pps. between 2021 and 2024.

The main challenges Albania faces are as follows:

- **While further policy support may be necessary in the short term, continuing fiscal consolidation would help the recovering economy to safeguard sustainability and build fiscal buffers for future unexpected shocks.** Because of high uncertainty about possible further pandemic effects and the impact of Russia's war against Ukraine, it seems appropriate to stand ready to provide crisis mitigation if needed. Contingent on the economic outlook, a gradual reduction of the public debt ratio and a return to a positive primary balance in the medium term would be key to rebuilding fiscal space. Stable fiscal planning without frequent budget amendments and a speedy clearance of contract-based arrears would increase the reliability of fiscal policy and the quality of public finance. Improving and expanding the assessment of fiscal risks, including those stemming from public-private partnerships, concessions and state-owned enterprises, would further contribute to debt sustainability.

¹ The assessment and the tables in this document are based on the ERP as submitted and could not be revised to fully reflect the 2021 fiscal outturn and the latest GDP publication of 31 March 2022.

- **Increased revenue mobilisation is crucial to lower the debt ratio and to honour the new positive primary balance rule, and relies on the MTRS being successfully implemented.** The MTRS can only be successful if it undergoes intensive public consultation and its role to effectively guide tax policy in the medium term is ensured by a budgeted, operational implementation plan. All of the plans for high public infrastructure investment should be subject to harmonised, effective planning, appraisal and procurement procedures and be balanced with investment in human capital, which is a crucial factor for future growth. A continuous gradual increase in public spending on health, social protection, education, and research and development would make the composition of expenditure more growth-friendly.
- **Structural weaknesses continue to hamper the business environment.** Private sector development remains below potential, actions to improve the business environment were only partly effective, and high levels of informal economic activity and employment distort competition. A lack of business support services and help with access to finance remains an obstacle, though the adoption of the Strategy on Business and Investment Development for 2021-2027 (BIDs) in mid-2021 should start some necessary steps. Transparency in adopting and implementing legislation remains insufficient– Albania did not draft a comprehensive strategy to tackle the informal economy.
- **Although the number of university graduates is increasing, there is still a high share of adults with low skills and of young people not in employment, education or training.** The labour market has shown resilience throughout the pandemic. However, the coverage and funding of active labour market policies are too low to make a substantive dent in the increased number of registered jobseekers. Vocational education and training still lack stronger involvement of businesses. Teachers in pre-university have received only limited training to implement the new competency-based curriculum. University education is of low quality and largely disconnected from the labour market. While a new measure is expected on innovation, the link between innovative businesses and academia is weak, with insufficient funding for science and research and unfavourable conditions for developing business incubators.
- **Poverty and social exclusion remain high and spending on social protection and healthcare is insufficient to decrease poverty and increase healthcare coverage.** The benefits under the Economic Aid scheme are too low, but the government took temporary measures to increase them and began a process to review their adequacy. A recent initiative aims to foster social inclusion and labour market integration of the scheme's beneficiaries. Social services are scarce. The Social Fund provides financial support to municipalities to establish new ones, but there are concerns about their sustainability. The government took steps to increase healthcare coverage for the sizeable number of uninsured people in the country, but access to healthcare is still limited due to high out-of-pocket payments and a shortage of doctors, especially in rural and remote areas.

The policy guidance jointly adopted at the Economic and Financial Dialogue of 12 July 2021 has been partially implemented. Fiscal consolidation was postponed, and its pace decelerated. Development of the MTRS progressed but it was not adopted. Reporting and clearance of VAT refunds and other arrears progressed. Capacity building was limited for monitoring fiscal risks and improving public investment management. Effective measures and

close supervision preserved financial sector stability, but while the NPL-ratio decreased substantially, there has been no progress on resolving the bailiff impasse to further improve NPL resolution. The high level of currency substitution has slightly increased and, while some progress was made in developing the market for hedging instruments, there are no plans for the introduction of measures to promote the national currency in the realm of the government. No cross-cutting strategy to tackle informality was drafted or adopted, and the relevant measures are the same as in ERP 2021-2023. Plans to enhance the business support services have limited funds and few results were achieved in 2021. Adequate stakeholder consultation remains an issue. Albania established an inter-ministerial task force to develop a Youth Guarantee implementation plan and started developing tools to regularly monitor the labour market and skills needs. Albania has begun to assess the adequacy of social assistance benefits with a view to adjusting them. There was only limited progress made on increasing the capacities of municipalities for social services or on redesigning coverage policy to reduce unmet needs for medical care.

The key challenges identified in the ERP correspond to those identified by the Commission, but their analysis is incomplete. The programme's macro-fiscal framework relies on optimistic projections for net exports and private investment above historical averages, and the planned pace of fiscal consolidation is slower than in previous ERPs. The commitment to continue reducing public debt is better anchored with the new primary balance rule. The analysis of structural obstacles fails to examine key sectors of the economy, notably industry and services (except tourism). The analysis of the green transition does not examine Albania's challenges in depth. The shared European growth model regarding green and digital transition will also have to be reinforced in the ERP process for Albania, even more so in the current geopolitical context. In line with the EU strategy for the Digital Agenda in the Western Balkans, the reform of the development of the broadband infrastructure is expected to positively affect the economy. The reform measures largely address the identified key challenges. However, no measure to improve the quality of higher education has been included in the ERP.

2. ECONOMIC OUTLOOK AND RISKS

Albania's ERP revised its growth estimate for 2021 upwards to 8.7%. Following a lower than feared recession of 3.5%² () in 2020, the economy rebounded faster than expected in 2021. Tourism recovered to about 90% of 2019 levels, helped by an early lifting of travel restrictions and by increasing regional tourist flows. This added to a solid recovery of household consumption, while an exceptionally large increase of public investment (driven partly by reconstruction needs following the earthquake of November 2019) and exports of goods also contributed strongly to Albania's growth performance. Private investment also grew strongly and is estimated to have exceeded 2018 levels after 2 years of contraction, supported by an accommodative monetary policy. Abundant rainfall allowed hydro-electricity production to double in the first 3 quarters of 2021, and resulted in net electricity exports in 2021 despite very dry conditions in the last quarter. The recovery is having a positive impact on the labour market and the unemployment rate has decreased to 11.9% from 12.2% in 2020, although employment has not yet returned to its pre-crisis level, especially in services.

² According to the latest revision by INSTAT of 31 March 2022

The ERP projects economic growth to average 4% between 2022 and 2024, driven by a broad-based recovery of household consumption, exports and private investment. For 2022 and 2023, the ERP expects private consumption and net exports to contribute most to growth, while the contribution of investment is expected to pick up only in 2024. The positive contribution of net exports is expected to continue throughout the ERP horizon, supported by a lower growth of service imports than before the pandemic while export growth is projected to continue at a higher level than the pre-pandemic average. This projection could not take into account downside risks from Russia's war against Ukraine, in particular from higher energy and food prices and less dynamic external trade. Although the projection of the overall investment contribution is broadly in line with the pre-pandemic averages for 2022-2023, this masks an assumed high growth of private investment in 2022 and 2023, and a strongly negative contribution of public investment following a high base in 2021. Services, agriculture, and manufacturing are expected to contribute most to the growth of production value in 2022-2024, with growth expectations slightly above historical averages for all segments except agriculture, which is double its historical rate. The labour participation rate is expected to rise to 71% by 2024 from 69% in 2020. Despite moderate and gradually decelerating growth in employment of about 1.2% a year on average, the unemployment rate is forecast to fall by 2.5 pps. compared to 2021, to 8.9% in 2024. The ERP estimates the output gap to have remained slightly negative in 2021 and projects it to close in 2023.

The main downside risks are related to optimistic projections for net exports, while the assumed high growth of private investment calls for structural reforms. The growth projection for 2022 and 2023 was lowered by 0.7 pps. and 0.3 pps. respectively compared with last year's ERP, which partly reflects base effects from the upward revision of the expected 2021 growth rate of 3.3 pps., but also some correction of the former overly optimistic expectations. Nevertheless, the favourable economic outlook remains slightly above international and ECFIN forecasts. In particular the projected growth of goods exports exceeds historical averages, and the projection of relatively subdued import growth does not tally with the optimistic investment expectations, as investment is an important import driver. The expected high growth of private investment depends on the political will to accelerate structural reforms, e.g. the postponed adoption of the modernised investment legislation and the announced investment strategy. In addition, Russia's invasion of Ukraine is likely to affect import prices and supply of certain staple foods, which depend heavily on Russian and Ukrainian sources, while in other respects Albania's economic relations with that region are very limited.

Table 1:

Albania - Comparison of macroeconomic developments and forecasts

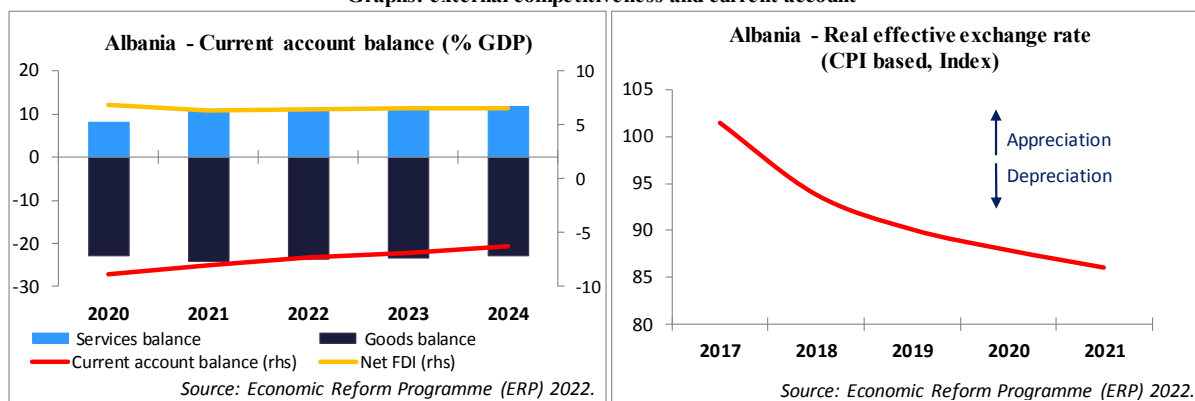
	2020		2021		2022		2023		2024	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
Real GDP (% change)	-4.0	-4.0	6.9	8.7	3.7	4.1	3.6	4.2	n.a.	3.9
<i>Contributions:</i>										
- Final domestic demand	-2.2	-2.2	6.5	8.5	3.8	3.4	3.4	3.4	n.a.	3.4
- Change in inventories	-2.5	-1.5	0.0	:	0.0	:	0.0	:	n.a.	:
- External balance of goods and services	0.7	-0.2	0.4	0.3	0.0	0.7	0.1	0.8	n.a.	0.5
Employment (% change)	-1.9	-1.9	1.7	0.8	1.7	1.7	1.6	1.3	n.a.	0.8
Unemployment rate (%)	12.2	12.2	11.8	11.4	11.0	10.3	10.3	9.4	n.a.	8.9
GDP deflator (% change)	-0.4	-0.4	1.3	0.6	1.5	1.4	1.2	1.0	n.a.	1.4
CPI inflation (%)	1.6	1.6	2.2	2.0	2.8	2.8	2.7	3.0	n.a.	3.0
Current account balance (% of GDP)	-8.7	-8.8	-7.7	-8.0	-7.3	-7.3	-7.1	-6.9	n.a.	-6.2
General government balance (% of GDP)	-6.8	-6.8	-5.9	-5.8	-4.0	-5.4	-3.5	-2.9	n.a.	
Government gross debt (% of GDP)	75.7	75.7	77.6	80.1	74.9	78.8	73.9	77.6	n.a.	75.7

Sources: Economic Reform Programme (ERP) 2022, Commission Autumn 2021 forecast (COM).

Inflation has been on an upward trend but is not expected to exceed its target in the medium term. The inflation rate averaged 2.1% in 2021 but monthly readings showed a continuous increase since mid-2021 due to high increases in food and energy prices. The ERP expects average inflation to rise to 2.8% in 2022 before converging at the 3% target in 2023 in line with the closing output gap. Considering the international price developments in early 2022, the Bank of Albania (BoA) revised its earlier forecast and expects the inflation rate to overshoot its 3% target in 2022, and to remain around or above the target in 2023. In March 2022, the BoA began the announced gradual normalisation of its very loose monetary policy, and raised the policy rate by 0.5 pps. to 1.0%. This was the first rate change since March 2020, when BoA lowered the policy rate to 0.5% in response to the pandemic-induced economic downturn. The ERP does not include assumptions on the exchange rate of the lek and the inflation rate in the EU.

The ERP expects the decreasing trend of the current account deficit, which was interrupted by the COVID-19 crisis, to continue. Despite exports rebounding in 2021, which underpinned the overall improvement of the external balance, the merchandise trade deficit was higher than expected because the strong economic recovery and the high public investment expenditure generated higher import growth, in particular in imports of construction material, textiles and electricity, which accelerated in the last quarter of the year. At an estimated 8% of GDP, the 2021 current account deficit was 0.9 pps. higher than expected in the previous ERP (despite the higher GDP denominator), partly reflecting the impact of increasing energy prices (Albania imports about 30% of its energy). The ERP forecasts that the external balance will gradually improve to -6.2% of GDP in 2024, based on a decreasing trade deficit, a strongly increasing services surplus and stabilisation of the primary and secondary income accounts (all in terms of GDP). Higher imports than projected and surging import prices might limit the expected improvement of the external balance. Inflows of foreign direct investment (FDI) amounted to 6.7% of GDP in 2021, 0.3 pps. lower than projected in the previous year's ERP. Furthermore, they are expected to stabilise at around 6.5% of GDP in the medium term and would still cover the bulk of the expected current account deficit in 2022-2024. The projection that the FDI to GDP ratio will be about 2 pps. lower than that prior to 2019 seems a realistic assumption, which takes into account the extraordinary effect that occurred between 2016 and 2019 thanks to the recent completion of two very large energy projects is unlikely to be repeated.

Graphs: external competitiveness and current account



Albania's vulnerability to an increasing external debt ratio is mitigated by solid foreign exchange (forex) reserves and a high share of long-term and concessional debt. Gross external debt has increased by 5 pps. to 65.4% of GDP in 2020, driven by a EUR 650 million Eurobond issuance (of which EUR 250 million was used to repay a maturing Eurobond) and concessional loans to support the economy during the peak of the COVID-19 pandemic. Supported by the strong rebound in GDP, this ratio is expected to have stabilised at an estimated 66% at end-2021, even as new liabilities were incurred including another EUR 650 million Eurobond and EU macro-financial assistance of EUR 180 million. About 94% of the external debt stock is long-term with more than half of that owed by the government, mostly on concessional terms. However, the share of funding raised on the international capital market is expected to increase as the government plans a more frequent issuance of Eurobonds. The BoA's risk analysis shows that the external debt ratio is more sensitive to currency depreciation than to an increase of interest rates. Although the return of the lek to its appreciation trend in 2021 indicates that such a risk is limited, the volatility of international prices due to the Russian invasion of Ukraine might add pressure on the currency value. However, this risk is adequately safeguarded against by forex reserves, which have consistently increased over recent years and totalled EUR 4.9 billion at the end of 2021, covering almost 9 months of imports of goods and services and around 47% of external debt.

The financial sector continued to recover and portfolio quality improved but the high use of foreign currencies remains a risk. The BoA continued to provide liquidity to the market and kept the suspension of banks' dividend payments and relaxed rules on loan provisioning in place until end-2021. Bank profitability (return on equity) improved strongly in 2021 reaching 12.9% from 10.7% at end-2020 but it has not returned to 2019 levels. Capitalisation remained adequate, well above the regulatory minimum and the core liquidity ratio gradually increased in 2021, but remained in average below pre-crisis levels. The growth of credit to the private sector³ picked up to 9.1% y-o-y from 6.6% in 2020 and the outstanding loan stock returned to its pre-pandemic level of 39.6% of GDP, which is still low when compared regionally, pointing to ample scope for deeper financial intermediation. The ratio of non-performing loans to total loans dropped to 5.7%, its lowest level since 2009, reflecting not only an increase in outstanding credit but also a declining flow of new problem loans and a 15% fall in the stock of non-performing loans compared with the previous year. However, as the full impact of the crisis on bank balance sheets might become apparent after some

³ Adjusted for written-off loans and exchange rate impacts

delay, the BoA is committed to remaining vigilant and has extended the suspension of the banks' dividend distribution until the end of 2022 to safeguard capital buffers. The share of foreign currency loans in total bank loans slightly decreased to 48.8%, while the high growth of foreign currency deposits led to their share in total deposits increasing to 55.2% and accelerated overall deposit growth to 8.5%. The BoA is developing more hedging instruments which should help decrease foreign exchange risks. Another remaining source of vulnerability is banks' exposure to sovereign risk from an expanding stock of government securities on their balance sheets.

Table 2:

Albania - Financial sector indicators

	2017	2018	2019	2020	2021
Total assets of the banking system (EUR million)	10768	11 398	12 380	13 156	14 980
Foreign ownership of banking system (%) *	81.4	80.8	78.4	69.4	:
Credit growth (% , aop)	-0.1	-1.7	3.0	6.1	6.9
Deposit growth (% , aop)	1.0	-1.2	2.5	5.8	8.5
Loan-to-deposit ratio (eop)	54.9	53.9	55.6	54.7	54.8
Financial soundness indicators (eop)					
- non-performing loans	13.2	11.1	8.4	8.1	5.7
- net capital to risk-weighted assets	16.6	18.2	18.3	18.3	18.0
- liquid assets to total assets	13.0	14.8	15.1	13.6	13.3
- return on equity	15.7	13.0	13.5	10.7	12.9
- forex loans to total loans (%)	55.7	55.1	50.1	48.5	48.8

* of total sector assets

Sources: Economic Reform Programme (ERP) 2022, IMF, Bank of Albania.

3. PUBLIC FINANCE

In 2021, strongly rebounding revenue and an under execution of capital spending helped improve the budget balance, and the deficit turned out 2.3 pps. lower than planned. The initial budget plan aimed for a deficit of 6.9% of GDP, slightly higher than the 2020 outcome. After several upward revisions during the year, the ERP estimates the budget shortfall at 5.8% of GDP, while the actual outturn was even lower at 4.5% of GDP. Tax revenue surged by 19.3% y-o-y, slightly exceeding the 2021 plan as well as 2019 values in all categories except for profit and personal income taxes, while at the same time most VAT refund arrears were cleared. Current expenditure grew 9.4% y-o-y, driven by higher spending on social security, maintenance and wages. However, overall spending was 33.7% of GDP, lower than budgeted, driven in particular by underspending of the capital expenditure budget, which was increased by a total of 20% in the five budget revisions during 2021. In contrast to the ambitious increase, 31% of the capital budget was not spent and actual investment spending fell by 3% from the high level in 2020. At the same time, arrears on investment-related contracts of the central government, almost tripled in the year to September 2021, reaching around 1.1% of GDP and were only cleared by means of reallocating unused funds with the last budget revision.

The ERP presents a back-loaded fiscal consolidation and a moderate pace of debt reduction. It is targeting a fiscal deficit below 3% of GDP from 2023 and a return to a non-

negative primary balance in the same year, as originally laid down by the fiscal rule⁴. The expected gradual fiscal improvement is based on a further small increase in the revenue ratio by 0.4 pps. to 29.1% of GDP between 2021 and 2024, driven by the implementation of the medium-term revenue strategy and the assumed economic growth. The main contribution to halving the deficit in 2023 is expected to come from a larger retrenchment of capital expenditure compared with the planned high base in 2021, while in 2024 expenditure is planned to increase again by 5.5%. Overall, the expenditure-ratio is planned to drop by more than 2 pps. between 2022 and 2024 to below 32% of GDP, while the average capital expenditure will be kept at 6.7% of GDP. The expected sizeable rise in interest expenditure implies an assumed increase of the implicit interest rate from 2.6% in 2021 to 4.2% in 2024. The ERP's estimate of the cyclically adjusted primary balance shows that counter-cyclical fiscal support in 2020 and 2021 will give way to a sizeable tightening in 2023, when the output gap is expected to close.

Table 3:

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

	2020	2021	2022	2023	2024	Change: 2021-24
Revenues	26.3	28.6	28.7	29.0	29.1	0.4
- Taxes and social security contributions	21.3	23.0	22.9	23.2	23.4	0.4
- Other (residual)	5.0	5.6	5.8	5.8	5.6	0.0
Expenditure	33.2	34.5	34.1	31.9	31.9	-2.6
- Primary expenditure*	31.0	32.5	31.4	29.0	28.8	-3.7
<i>of which:</i>						
Gross fixed capital formation	7.1	9.2	7.5	6.2	6.3	-2.9
Consumption	10.9	9.5	9.6	9.1	8.9	-0.6
Transfers & subsidies	13.0	12.8	12.9	12.7	12.7	-0.2
Other (residual)	0.1	1.0	1.4	0.9	0.9	-0.1
- Interest payments	2.1	2.1	2.7	2.9	3.2	1.1
Budget balance	-6.8	-5.8	-5.4	-2.9	-2.8	3.0
- Cyclically adjusted	-5.0	-5.6	-5.3	-3.0	-2.9	2.8
Primary balance	-4.7	-3.8	-2.7	0.0	0.3	4.1
- Cyclically adjusted	-2.9	-3.6	-2.6	0.0	0.3	3.9
Gross debt level	75.7	80.1	78.8	77.6	75.7	-4.3

* Excluding arrears clearance

Sources: Economic Reform Programme (ERP) 2022, Commission calculations.

5

In contrast to the previous ERP's projections, the loose fiscal stance is set to continue in 2022 with still high capital expenditure. The 2022 budget projects a fiscal deficit of 5.4% of GDP. Total revenue is projected at 28.7% of GDP, while the tax-to-GDP ratio is expected to slightly decrease from the high level reached in 2021. Total expenditure is set to increase by 4.5% y-o-y compared to the 2021 plan, driven by interest expenditure, social insurance outlays and wages. While capital expenditure was set to fall by 14.4% from the very high

⁴ The fiscal rule to keep the primary balance zero or above was introduced in 2020 to take effect in 2023. In 2021, this rule was amended by normative act to enter into force in 2024.

⁵ 2020 and 2021 figures based on GDP estimates used in the ERP.

budgeted level of 2021, based on the actual outturn a 20% increase would be necessary to reach the planned historically high level of 7.5% of GDP⁶. Last year’s ERP envisaged a stronger onset of fiscal consolidation in 2022 with a significantly lower fiscal deficit of 2.9% based on cutting capital expenditure to 5.8% of GDP. Given the 2021 performance, ambitious capital expenditure plans as stimulus for the economic recovery do not seem necessary in 2022, while the recommended shift in expenditure composition towards human development and innovation is not reflected in the medium-term budget plans.

Key fiscal policies will be the medium-term revenue strategy (MTRS) and the use of sovereign guarantees to stimulate private investment. The main contribution to the medium-term increase in the revenue ratio is expected to come from VAT collection because the MTRS contains plans to abolish most tax exemptions and improve collection efficiency. Reducing informal employment and a redesign of the tax policies concerned, also part of the MTRS, should help to increase social contributions and income tax revenue in addition to rising employment and minimum wages. Based on the experience gained from sovereign guarantees in 2020 for COVID-related support, the government plans to use them as instruments to facilitate access to finance for the agricultural sector, for investments into manufacturing and in innovation. However, the ERP does not provide details on these plans. A number of the ERP reform measures have not been costed and budgeted, signalling a lack of cross-government coordination on the ERP and details are missing for the largest part of the discretionary and the capital expenditure.

Assessment of measures supporting the recovery

The ERP presents only a few policies that directly support the economic recovery or the address the identified key challenges and does not link these policies to growth expectations. It does not provide the requested data on discretionary and COVID-related measures, contingent liabilities and long-term sustainability. Recent policies to mitigate the impact of rising prices due to the war in Ukraine could not yet been presented and assessed.

a. Incentives to increase employment

The government plans to spend about 0.12% of GDP on continuing temporary employment support programmes and on some new and revised programmes to improve the employability of the most vulnerable jobseekers. Former employees of the Balsh oil refinery, which ceased operations at the end of 2019 without settling its wage bill, will continue to receive minimum wages in 2022 accounting for 0.02% of GDP. Very little funding (less than 0.06%) is allocated to the few programmes mentioned under the 2019-2022 national employment and skills strategy, which aim to increase the quality of and access to VET and increase digital competence.

b. Support for public and private investment, and the green and digital transition

The financing of the COVID-19 vaccines in 2022 is budgeted with ALL 2.7 billion and the

⁶ Including local government and reconstruction expenditure and transfers to the state-owned electricity distributor to shield households and SMEs from the impact of the spike in international electricity prices, although strictly speaking the latter might not count as capital investment.

post-earthquake reconstruction should be completed in 2022 using ALL 20 billion. The ERP describes railway investments as a measure used to reduce energy intensity of the transport sector and in addition, 0.02% of GDP is budgeted for each of the following: i) increasing energy efficiency, ii) supporting MSMEs and iii) modernising retail payment systems. Broadband development is supported by external funding with very limited financing from the budget while the measure “Improving institutional, financial and human capacities for research and innovation” is not budgeted for at all, despite the announced policy aim to increase funding for research.

The government announced three new sovereign guarantees (below the line items), which are intended to mobilise private investment into manufacturing (ALL 1 billion), innovation (ALL 250 million) and agriculture (ALL 4 billion over 4 years). In addition, a sovereign guarantee for the tourism sector (ALL 1 billion) should support this sector’s recovery, which was hit especially hard by the COVID-19 pandemic. An increased use of sovereign guarantees would also increase the contingent liabilities for public finance and the need for institutional capacity to manage the increasing fiscal risks.

c. Support to demand

The 2022 fiscal package introduces stronger progressivity in income tax leaving a larger part of the lower income bracket non-taxable. Some VAT tax exemptions are to be abolished, and excises harmonised, which will simplify the tax system overall. The indexation of pensions is a permanent measure, which will keep the real income level of pensioners stable. The pensioner year-end bonus seems temporary, but could become permanent similar to the birth bonus introduced in 2019. Both are unrelated to the COVID-19 pandemic and constitute untargeted transfers with relatively high expenditure.

d.) Liquidity measures

The budget includes an extraordinary provision of an ALL 8 billion loan to the state-owned electricity supplier OSHEE in 2022. This is to cover the high electricity import costs, for which OSHEE already received a state guarantee of a similar size in 2021 for commercial and concessional loans. The loan is not linked to incentives for energy saving or investments into energy efficiency. It is to provide untargeted support in the form of stable electricity prices for all households and MSMEs.

The budget for year 2022

On 25 November 2021, the Parliament approved the 2022 budget, which targets a fiscal deficit of 5.4% and a public debt of 78.8% of GDP. Parliament reconfirmed its approval in its last session of 22 December, overriding the president's decree, which returned the budget to the Parliament for review because the planned debt reduction was deemed insufficient.

Main measures in the budget for year 2022:

Temporary/permanent revenue measures* : **+0.39% of GDP** (out of 1.6% of GDP projected revenue increase)

Temporary/permanent expenditure measures** **+0.85% of GDP** (out of 1.47% of GDP projected expenditure increase)

- | | |
|---|---|
| <ul style="list-style-type: none"> • VAT revenue from elimination of farmers' compensation scheme; reduction of VAT exemption for agricultural inputs and imported machinery; a new tax on imported milk powder (fiscal package 2022) (+0.1% of GDP) • Revenue from harmonisation, indexation and abolition of refunds of excises and a new tax on fuelling in custom-free zones (fiscal package 2022) (+0.17% of GDP) • Additional grants for projects (0.16% of GDP) • Increase of non-taxable income (-0.04% of GDP) | <ul style="list-style-type: none"> • Reserve Fund (0.13% of GDP) • 6% salary increase in health, education and defence sectors (0.15% of GDP) • COVID-19 vaccines (0.15% of GDP) • Pension indexation and pensioners' year-end bonus (0.33% of GDP) • Reduced social assistance and transfers for civil emergencies (-0.14% of GDP) • Transfer to public electricity distributor for price stabilisation (0.43% GDP) • Abolition of expropriation funds (-0.16% of GDP) • Reduction of capital expenditure (-1.3% of GDP) |
|---|---|

* Estimated impact of specific measures on general government revenues excl. impact of economic growth.

** Estimated impact of reported changes of general government expenditure.

Source: ERP, MFF

In 2021, the public debt ratio turned out much lower than projected, 73.1% of preliminary GDP, but the envisaged debt reduction path will not result in a return to the pre-crisis debt-level in the medium-term. The debt ratio was expected to increase by some 5 pps. compared to 2020 but turned out to be 2 pps. lower, mainly due to a lower-than-planned deficit and the larger than expected nominal GDP. The lower debt level in 2021 will

make it necessary to revise downwards the ERP debt projections for 2022 and beyond if the fiscal rule requiring a falling debt ratio is to be complied with. In the medium-term, the ERP expects the public debt ratio to fall by an average of 1.4 pps. per annum. but the pace of the planned reduction is not sufficient to undo the cumulative 8 pps. increase of the debt ratio in 2020 and 2021 in the medium-term and would require about 6 years of fiscal consolidation to return to the pre-crisis debt level.

<i>Debt dynamics</i>					
Albania					
Composition of changes in the debt ratio (% of GDP)					
	2020	2021	2022	2023	2024
Gross debt ratio [1]	75.7	80.1	78.8	77.6	75.7
Change in the ratio	9.9	4.4	-1.3	-1.2	-1.9
<i>Contributions [2]:</i>					
1. Primary balance	4.7	3.8	2.7	0.0	-0.3
2. "Snowball" effect	5.2	-4.4	-1.4	-1.0	-0.8
<i>Of which:</i>					
Interest expenditure	2.1	2.1	2.7	2.9	3.2
Growth effect	2.7	-6.0	-3.1	-3.2	-2.9
Inflation effect	0.3	-0.4	-1.1	-0.7	-1.1
3. Stock-flow adjustment	0.1	5.0	-2.5	-0.3	-0.8
<p>[1] End of period.</p> <p>[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).</p> <p>The stock-flow adjustment includes differences in cash and accrual, accounting accumulation of financial assets and valuation and other effects.</p> <p><i>Source: Economic Reform Programme (ERP) 2022, ECFIN calculations.</i></p>					

The debt dynamics are based on slightly optimistic growth expectations, assuming a stable exchange and inflation rate and an increasing implicit real interest rate. Debt reduction is expected to be driven by a back-loaded improvement in the primary balance and a favourable but decreasing snowball effect mainly based on real growth effects. Following the large debt-increasing impact of the stock-flow adjustment in 2021, which was driven by a Eurobond issuance exceeding rollover needs and energy sector-guarantees, stock-flow adjustment is projected to help reduce debt in 2022. The projected debt dynamics differs significantly from those in previous ERPs, where debt reduction was driven by a higher snowball effect based on more optimistic growth expectations and on a stronger contribution of inflation. As in 2020, the starting level of public debt is lower than shown in the table, which does not reflect the actual 2021 outcome.

External public debt increased in 2020 and 2021, but a stronger reduction than previously planned is projected. In 2021, Albania received an EU loan of EUR 180 million at very favourable terms in the form of macro-financial assistance and issued a EUR 650 million Eurobond with 10 years maturity⁷. The continuing strong growth of public debt denominated in foreign currency in 2021 pushed its share in the total public debt stock from 47.4% to an estimated 51%, just above the targeted maximum of 50% set out in the debt management strategy. The revised Medium-Term-Fiscal-Framework (MFF) plans to reduce this share to 44.5% by 2024, considerably lower than the share the previous ERP aimed for. Foreign debt consists only of long-term instruments, largely at concessional terms, while the average maturity of domestic debt, which is dominated by shorter maturities, has slightly increased and the shares of short-term and variable rate instruments have slightly decreased between 2020 and 2021. Despite the increased financing demand by the government, interest rates for government securities decreased and S&P Global Ratings affirmed the "B+" Local Currency long-term credit rating of Albania on 28 January 2022, with a stable outlook.

⁷ This is the longest maturity bond Albania has so far issued, with an initial yield of 3.75%, just 0.1pp. higher than for the 7-year maturity Eurobond issued in June 2020.

Sensitivity analysis

The sensitivity analysis of this year's ERP extends to 2026 and provides more detail on the expenditure and financing categories to reflect the impact of the optimistic and pessimistic growth scenarios on the financing composition. The real GDP growth rates deviate by +0.5 pps. and -1.5 pps., respectively, from the 4.1% baseline average growth scenario. The fiscal adjustment that is assumed under the pessimistic scenario is set to avoid increasing the debt ratio, mainly by reducing domestically financed investment and lowering operational & maintenance expenditure. The public debt to GDP ratio would decrease by less than 1 pp., considerably lower than the baseline and the optimistic scenario. The assumed lower financing need in the pessimistic scenario as opposed to the other scenarios combined with the same interest payments (all in nominal terms) leads to a higher primary surplus between 2023 and 2025 than in the baseline scenario, in which the primary balance only turns positive in 2024. While the increase of the baseline projection for the revenue ratio from 28.6% to 29.3% is in line with the historical trend, the assumption under the pessimistic scenario appears generous as it would still be the highest revenue ratio since 2015.

Contingent liabilities from public-private-partnerships (PPPs), state-owned enterprises (SOEs) and public guarantees are likely to increase while plans to improve their monitoring lag behind. In 2021, the planned budgetary payments for the 13 ongoing concession/PPP contracts were 25.7% higher than in 2020, when some payments were postponed to 2021, and equivalent to 3.5%⁸ of the exceptionally low tax revenue of 2020, therefor still below the 5% ceiling set out in the fiscal rules. The fiscal risk from the increasing portfolio of public guarantees is mitigated by accounting them fully as public debt, but there is a lack of transparency over the cost of the guarantees and the probabilities of default. The regular reliance of the state-owned energy utilities on public guarantees and loans constitutes another source of fiscal risk, which is aggravated by the exposure of the hydroelectric power sector to climate change risks and for which mitigation measures still need to be developed. Until now, there was no payment effectuated under the guarantees for the private sector in the COVID-19 context, which amount to 0.6% of GDP. The results of the improved monitoring and assessment of PPPs and concessions are reported annually and are integrated into the fiscal risk statements, which regularly accompany the budgets. However, the reports only cover pre-determined budgetary payments for PPPs and SOEs in a backward-looking manner and do not assess or forecast contingent liabilities stemming from PPPs.

Revenue administration is improving, but public investment management is still to be reformed and spending on human development remains below what is needed. The ongoing 2019-2022 Public Finance Management (PFM) Reform Strategy aims to address key weaknesses and includes targets to improve public investment management, budget comprehensiveness, expenditure and arrears control, fiscal risk monitoring and revenue mobilisation. The reform of the revenue administration clearly progressed, among others demonstrated by, among other things, the clearance of VAT refund arrears and speedier refunds. The renewed commitment to the MTRS should lead to a simpler tax system and a more predictable tax policy, while at the same time reduce the informal economy and tax efficiency gaps. The reporting clearance of arrears have improved, but heavily backloaded

⁸ Under the organic budget law, payments to PPPs and concessions from the budget are not to exceed 5% of the actual tax revenue of the preceding year.

underspending of the capital budget in parallel to contract arrears increasing over the year indicate persisting problems with investment planning, contract management and commitment control. Public reconstruction funds, concessions and PPPs remain outside of the established processes for approving, managing and reporting on public investment; this reduces their transparency and efficiency. The structural reform programme in the ERP includes a measure to reform public strategic investment, explicitly including PPP projects and concessions, but the implementation might be hampered by institutional restructuring. Spending on health, social protection, education, and research and development remains significantly below what is needed and a continuous gradual increase in public spending on these areas guided by an updated national development strategy would make the composition of public expenditure more growth-friendly.

Frequent budget revisions highlight weaknesses in planning capacity and undermine the transparency and credibility of the budget process. The planning of the medium-term fiscal framework is not based on updated, actual fiscal data but on the previous year's budget plan, and carries over the overestimations of deficit and debt (caused by underspending) from one budget cycle to the next. This is one reason why the budgets are regularly revised just after parliamentary approval, very early in the fiscal year. In 2021, the budget was revised five times without an updated macro-fiscal framework being published. These frequent revisions of the budget by normative acts instead of going through the regular process set out in the organic budget law have become the norm, which undermine the credibility of budget preparation. The use of normative acts in 2021 to postpone the entry into force of the primary balance rule and to suspend the debt reduction rule weakens the binding character of the organic budget law.

4. KEY STRUCTURAL CHALLENGES AND REFORM PRIORITIES

The Commission has conducted an independent analysis of the Albanian economy to identify the key structural challenges to mitigating the impact of the ongoing COVID-19 pandemic, in order to boost competitiveness and inclusive growth, drawing from Albania's ERP itself but also using other sources. This analysis shows that Albania continues to experience several structural weaknesses across many sectors. However, the main challenges for mitigating the impact of the pandemic and supporting the recovery in terms of boosting competitiveness and long-term sustained and inclusive growth are:

- (i) increasing innovation and skills of young people and adults to enhance employment;
- (ii) increasing coverage and adequacy of social protection and health insurance to reduce the share of population at risk of poverty and
- (iii) improving the business environment and investment climate by increasing the pace of reforms and government support, and by tackling informality.

The three key challenges identified by Albania correspond to those identified by the Commission. For key challenge 1, the focus slightly differs as Albania included only vocational education and training and omitted general pre-university education as well as higher education, which the Commission deems to be essential parts of the key challenge.

To promote competitiveness Albania also needs to tackle corruption, improve the rule of law, and strengthen institutions. Addressing these fundamental challenges is a prerequisite for a

successful transformation of the economy. The Commission is closely following the issues related to strengthening the rule of law, including the ongoing justice reform as well as those related to corruption in the annual Albania report.

Key challenge #1: Increasing innovation and skills of young people and adults to enhance employment

Albania's labour market has showed relative resilience during the COVID-19 induced economic slowdown, with employment slowly recovering to pre-pandemic levels. The employment rate (20-64) of 67.3% in the fourth quarter of 2021 remains only slightly below the fourth quarter of 2019 (67.7%). The job deficit has been narrowing with only 6 069 jobs less in the third quarter of 2021 compared to the respective quarter of 2019. The number of registered jobseekers, which peaked at 98 295 in the second quarter of 2021, fell significantly to 74 833 during the third quarter of 2021, therefore only higher by 4 367 compared to the third quarter of 2019 (pre-pandemic).

The share of the active population with low educational attainment remains high and participation in lifelong learning is low. In 2020, a high share (44.3%) of the active population (25-64) and the majority (56%) of registered jobseekers had at most primary education indicating a need to invest in reskilling and upskilling. However, the system lacks any form of remedial education for the young and middle-aged workforce and prior learning recognition system. Participation in adult learning in 2020 according to the Labour Force Survey was insufficient (0.6%) and significantly below the EU-27 average (9.2%).

Albania has strengthened its labour market institutions, but the coverage and expenditure on active labour market policies (ALMPs) are too low to reduce the number of registered jobseekers and there have been difficulties in implementing them. In 2021, the National Agency for Employment and Skills (NAES) was finalising the institutional and legal reform, putting in place a new information system, training its staff and developing individual employment plans for jobseekers. Despite steady increases since 2014, the budget of ALL 846.6 million for ALMPs (training and employment promotion programmes (EPPs)) in 2021 equalled only about 0.05% of GDP, significantly below the EU-27 average (0.39% of GDP, 2019 figures). Before the pandemic, the ALMPs covered around 14 000 jobseekers annually (14 725 in 2017, 13 578 in 2018 and 14 052 in 2019) and were reaching an increasing share of them (from 16.4% in 2017 to 19.8% in 2019). Yet, given the high share of registered jobseekers with at most primary education (55% and over since 2017), this coverage is insufficient to offer enough up- and re-skilling opportunities or a more intensive support through EPPs to enable this vulnerable category to join the labour market.

In 2020, due to COVID-19 lockdown and related restrictions, the number of jobseekers who benefitted from ALMPs declined to 8 532, while their share dropped to 10.3% due to an increased number of registered jobseekers. The situation improved slightly in 2021, but remained worse than that of the pre-pandemic period, with the number of jobseekers benefitting from ALMPs totalling 11 166 (14.9% of all jobseekers in the third quarter of 2021). In more detail, the number of participants in EPPs (4 835) almost recovered to pre-pandemic figures, while the number of trainees (6 331) has yet to recover. The implementation of the EPPs suffered from additional contextual factors: (i) a lower number of companies meeting the criteria due to economic slowdown; (ii) a reform of the EPPs at the start of 2020 which, despite being a positive step forward, introduced stricter eligibility criteria for companies requiring an adjustment of practices and training in employment offices

and an increased outreach to businesses; and (iii) low staff allocation in public employment service.

As regards the latter point, the Directorate-General of the National Agency for Employment and Skills (NAES), established in 2019, was only 70% staffed at the start of 2022. The employment offices lack human resources, with each frontline officer serving on average 360 jobseekers⁹, therefore limiting the number of jobseekers that can be actively assisted. The capacities of frontline officers need to be increased to enhance skills needed for comprehensive guidance and follow-up of harder to employ jobseekers, for conducting skills assessment (which is for now largely based on occupational categories) and for providing employer related services (OECD 2021b). The allocated budget for the EEPs was underused, with ALL 70.4 million out of ALL 590 million disbursed in 2020, and ALL 393 million out of ALL 521.7 million disbursed in 2021. On a positive note, NAES has succeeded in diversifying the businesses that participate in implementing the EPPs and it plans a further communication campaign to support this trend.

Reform measure 2 ('Improving the employability of the most vulnerable unemployed jobseekers'), rolled over from the previous ERP, puts a necessary emphasis on improving the quality and effectiveness of NAES, but it does not address the lack of human resources in employment offices. NAES wants the targeting of the EPPs to be based more on jobseekers' profiles. However, the measure does not aim to increase participation in the EPPs or in vocational training, without which there will only be a marginal impact on the labour market.

There has been progressive but slow operationalisation of the legal basis for vocational education and training (VET), but limited involvement from businesses remains a challenge. The 2017 VET law is almost fully operational, with two new by-laws adopted in 2021, including one on the recognition system of previous non-formal and informal learning. The by-law on financial autonomy and generation of income is still pending. The optimisation plan for VET providers, which was developed in autumn 2020, was not implemented in 2021. There have been improvements in quality assurance by means of introducing self-assessments in all public VET providers and an accreditation model that was developed in 2020 but which still needs to be implemented. Short-term vocational courses are not yet aligned with the national qualification framework. A part of these courses were redesigned with support from Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to respond to the needs of the regional labour market and to include more practical training in businesses. Donor-supported VET providers developed work-based learning opportunities, especially in the areas of hotels/tourism, ICT and vehicle services. The 2019 regulation on work-based learning (WBL) provides a further opportunity to increase private sector participation in VET and to streamline WBL practices among VET providers. The National VET Council is not yet operational and the establishment of sectoral skills committees has been delayed, resulting in limited opportunities for the private sector to shape the design of VET policy. The skills' anticipation study (methodology) in the agricultural sector (dairy and wine value chains) developed with the support of the International Labour Organization will assist the sectoral skills committees once established by the NAVETQ.

⁹ This figure takes into account 74 833 registered jobseekers in quarter three of 2021 and 208 frontline officers. Of note is that 40 of these frontline officers are heads of sector who devote themselves only partially to clients.

Reform measure 1 ('Increasing the quality and access to VET'), rolled over from the previous ERP, aims to address most of the existing challenges, such as: (i) adoption of the by-law on financial autonomy and income generation; (ii) institutionalisation of the National VET Council; (iii) establishment of sectoral skills committees (firstly in the ICT sector and secondly in the hotels/tourism sector); (iv) referencing the Albanian Qualifications Framework to the European Qualifications Framework; (v) revising assessment standards for occupational competences; and (vi) consolidating the implementation of the accreditation system. While the measure sets implementing the optimisation plan for VET providers as an immediate priority, it does not include concrete activities to carry this out.

Albania has started developing tools to regularly monitor the labour market and skills needs. In 2021, NAES, with help from the RisiAlbania project, piloted a regional labour market analysis in Elbasan to improve the planning of short-term training. This analysis helps to highlight the most prevalent characteristics of jobseekers as well as regional job offers. As such, this analysis can be used to better target the EPPs and vocational training. There are plans to progressively deploy it countrywide, starting with Durrës. In 2017, the United Nations Development Programme (UNDP) carried out an analysis on national skills needs in Albania. NAES has been cooperating with the UNDP on repeating this analysis in 2022 with a transfer of know-how on methodology. the subsequent analysis in 2025 is planned to be carried out fully by NAES. NAES has also started work on developing a labour market observatory which will build on existing administrative and survey data and on scraping of big data to capture macro-level developments in the labour market and various sectors of the economy.

Despite increasing educational attainment, young people face a difficult transition to the labour market pointing to issues with the education system's relevance and quality. Between 2010 and 2020, Albania saw a remarkable shift in higher education levels between 2010 and 2020 as the share of university graduates aged 30-34 rose from 11.4% to 33.2%, while this share reached 40.3% for the age group 25-29. However, there is a very high share of young Albanians not in employment, education or training (NEETs), which reached 27.9% for those aged 15-29, double the EU-27 average of 13.7% (2020 data). The incidence is highest among upper secondary graduates (31.1%), followed by tertiary graduates (27.5%) compared to those with at most primary education (24.9%). This points to issues with the quality of education and its relevance to the labour market. It is also linked to the structure of businesses which are not yet able to absorb the increased number of tertiary graduates coupled with a current low foreign direct investment. The impact of the COVID-19 pandemic on learning outcomes and on businesses, and the lack of measures to help students catch up on their learning could result in longer school-to-work transitions from in the short to medium term.

Albania has taken steps towards establishing a Youth Guarantee scheme based on the EU model to help young people integrate into the labour market. With EU-funded technical assistance, Albania has carried out a mapping of NEETs and a review of the legal framework. A multi-stakeholder group and a technical expert group were set up to prepare the Youth Guarantee implementation plan. Just over 10% of young NEETs aged 15-29 (18 142 out of 175 209) were registered as jobseekers in the third quarter of 2021. The number of staff in employment offices (see above) is currently insufficient to meet inflows of young jobseekers that are expected to increase as the Youth Guarantee scheme is progressively implemented. This could hinder the scheme's effectiveness. Staff also requires training.

The competency-based curricula have now been put in place in all grades – 1 through 12 – in the pre-university education system, but teachers have only received limited training. Three days of training per year from authorised providers is not enough to ensure continuous learning and development. For example, pupils are still not assessed based on competences. With low funding for in-service teacher training, the Agency for Quality Assurance in Pre-university Education (AQAPE) resorts to financially efficient training via professional networks of teachers. This however cannot replace obligatory training. The AQAPE does not yet give due attention to the preparation of the students in the general pre-university education for the labour market both by introducing relevant curriculum and extra-curriculum subject matters and accompanying teachers' trainings. An example would be the optional subject on 'preparing future employers and employees for the world of work' prepared with the support of the ILO. It was introduced for the first time in the current academic year 2021 – 2022 and was picked by over 2000 students in general high schools.

The reform measure 17 ('Support the implementation of pre-university curricular reform and teacher training') was not included under key challenge 1. It partially addresses the issues mentioned above through activities to (i) develop training modules based on professional teaching standards and which are in line with the new curriculum, and (ii) strengthen human resources of local education offices in the curriculum sectors at the level. It also includes the much needed and long overdue activity to align the curricula in university programmes to prepare future teachers to teach subjects based on competency-based curricula.

University education in Albania is of low quality and is largely disconnected from the labour market. In a list of 400 higher education institutions (HEIs) in the QS World University Ranking 2021, the University of Tirana is ranked 351-400, behind its regional peers¹⁰. There are 40 HEIs in Albania with more than 1 300 study programmes, often multiplied across different HEIs. This clearly highlights the lack of structural planning and education development strategies and results in poor content and lack of alignment with labour market needs. There is a theory-practice gap, with a low number of internships that are limited to the public administration. Even then, level 5 professional programmes are mostly theoretical and lack practical content. Interdisciplinary study programmes are not promoted. The National Strategy of Education 2021-2026 aim to partly remedy this, in particular through increasing the offer of professional programmes, and promoting career-advice services and interdisciplinary and STEM programmes. However, it does not put enough emphasis on cooperation with businesses and on opening programmes based on labour market needs. Furthermore, it also does not plan to change the criteria for financing universities to take more into account how many graduates get jobs after university. Moreover, the ERP does not include any reform measure to address issues in higher education.

Despite adopting new initiatives, e.g. the strategy on business and investment development 2021-2027 (BIDs) in the second half of 2021, and the law on innovative start-ups in February 2022, private sector development in Albania is yet to reach its full potential. It is too early to see if the ongoing efforts to improve the business environment and increase support for innovation will have a significant impact. Exports remain concentrated in few low-value added products, due to the narrow industrial base. Although there is an ongoing reform on fiscalisation (the obligatory electronic recording of sales subject to VAT),

¹⁰ Belgrade – 60, Saint Cyril and Methodius in Skopje – 134, Sarajevo – 144, Pristina – 301-350.

the widespread informal economy remains an issue. Businesses still find it difficult to employ skilled staff.

Albania continues to rank low in the OECD's 2021 Competitiveness Index Albania - below the Western Balkans 6 average on science, technology and innovation. Scientific research is still systemically underfunded from public sources - general government expenditure on R&D was only 0.08% of GDP in 2019. It is not clear at this stage if the planned measures will achieve the objective of 0.2% of GDP in research and innovation by 2024, as stated in the ERP for 2022-2024. The proportion of companies investing in R&D (about 18%) was the second lowest in the region and public spending on research has been insufficient to strengthen the link between business and academia. At the same time, Albania's investment into tertiary education is losing its effectiveness due to the continuing brain drain of university graduates.

In terms of digital competitiveness, Albania appears to have a good e-commerce policy framework in its national strategy for scientific research, technology and innovation (2017-2022). However, the current level of e-commerce is limited, due in part to the limited capacity of telecommunication operators and internet providers. The BIDs for 2021-2027 aims to address some of these issues, supporting SMEs in taking up e-commerce and on access to finance and business support. Demand for access to finance remains significant - most of the SME activity remains self-financed and credit demand recovered during 2021, helped by support measures and economic recovery and approval rates have also increased. A new law on payment services, was recently adopted that includes dedicated regulations on facilitating e-commerce for SMEs. The law on innovative start-ups, adopted in February 2022, can potentially have a positive impact. However, both of these initiatives are very recent, so it remains to be seen what impact they will have on competitiveness.

Reform measure 03 ("Improving institutional, financial and human capacities for research and innovation") is carried forward from the 2021 ERP. It remains very relevant and could help Albania strengthen its' innovation and research capacities. The measure is ambitious, providing for R&D to be doubled as a percentage of GDP in 3 years (from 0.1% in 2022 to 0.2% in 2024), and doubling the number of funded research and innovation projects. It also provides for the completion and implementation of the Smart Specialisation Strategy (S3), and legal and support initiatives to be put in place over 2022-2024, including the law on innovative start-ups and business and investment development, as mentioned above. However, as mentioned above, these initiatives are very recent, so their full impact remains to be seen.

The activities planned include the improving research infrastructure, carrying out promotional activities for EU scientific programmes, providing investments to support research closely linked to the country's economic development, and promoting activities on skills development. Albania also identifies this as a measure designed to meet the EU Economic criteria regarding completeness. Action to the implementation of these measures will need to be clearly steered and strongly supported, to ensure their timely adoption. For a Key Challenge Reform, the analysis of main obstacles could have been more in-depth, but the current main challenges have been well summarised: 1) inter-institutional coordination and 2) budget constraints.

On inter-institutional coordination, so far, despite repeated reassurances of an order to clarify responsibilities to be signed soon, this continues to be an obstacle for the implementation of the important ongoing exercise Smart Specialisation Strategy (S3) that accumulated delays

and need to speedily move into the EDP phase to have some chances to be adopted in 2023 as planned. In regard to budget constraints, despite appreciated budget increases, the target of 1% of GDP remains a challenge. In addition, in part due to lack university research facilities for business and a lack of investment by business in this, trust needs to be built up between universities and business.

The establishment of the Council for Higher Education and Research should foster the implementation of measures to strengthen research and innovation capabilities at the national level. However, efforts need to be stepped up for the introduction of indicators in the statistical programme to produce statistics and reliable data on science and technology as well as of a methodology to assess expenses / funding on R&D in both public and private sector.

Key challenge #2: Increasing the coverage and adequacy of social protection and health insurance to reduce the share of the population at risk of poverty

Spending on social protection is low. Between 2015 and 2019, Albania spent 9.3% of its GDP on social protection, excluding healthcare, half the EU-27 average of 19.3% in 2019. Most social protection spending was on pensions (82.4%), followed by non-contributory cash assistance programmes to people with disabilities and people at risk of poverty (13.7%, equivalent to 1.27% of GDP) and by the baby bonus scheme (accounting for 1.5% of social protection spending). In 2019, only 1.1% (0.1% of GDP) of the social protection budget was spent on passive and active employment policies and around 1.3% (0.12% of GDP) on social services and administration costs for social protection at central and municipal level. With social support packages adopted to counter the negative impact of COVID-19, the expenditure increased to 11.0% of GDP in 2020 (EU-27 average increased to 22.0% of GDP) and was at 10.1% of GDP in 2021, but is set to fall below 10% of GDP in 2022 and beyond.

Poverty and social exclusion are high and the capacity of social transfers to reduce poverty is very low. In 2020, a large part of Albania's population (46.2%) was at risk of poverty or social exclusion, double the EU-27 average (21.9%). In 2021, the number of beneficiary households of means-tested income support from the Economic Aid scheme (*Ndihma Ekonomike*) peaked at 69 700 (about 10% of Albanian population). People with disabilities receive monthly benefits to cover their medical and care costs and compensate them for low labour market outcomes. A good step forward has been the removal of cessation of the disability benefit due to employment, agreed in 2019, which creates an incentive for labour market integration of beneficiaries. The operationalisation of the Employment Social Fund provided for in the Employment Promotion Law (2019) would provide an opportunity to support the employment of people with disabilities, but the ERP does not mention it. In the third quarter of 2021, only 6.5% of registered jobseekers received unemployment benefits while another 27.6% received support through the Economic Aid, leaving 65.9% without material support. Unemployment benefit is a lump sum at 50% of the minimum wage, therefore disconnected from previous earnings and presenting a low replacement rate for higher salaries. The capacity of social transfers (excluding pensions) to reduce the at-risk-of-poverty rate stands at only 12.1%, below regional peers and far below the EU-27 average reduction of 32.68%.

The allowances paid under the Economic Aid scheme are too low to combat poverty, but the government took temporary measures to increase them and began a process to review their adequacy. Based on Statistics on Income and Living Conditions (EU-SILC) 2020 data, the annual allowances for a four-member household of two parents and two children under 14, including monthly energy compensation and an allowance for both

children attending school (ALL 80 976), stood at 12.4% of the median equivalised annual income for such a household (ALL 651 847), far below the poverty threshold of 60% (ALL 391 108). Since their revision in 2018, the allowances were not updated until 2022 and their adequacy reduced compared to the poverty threshold, average wage, and to the Consumer Price Index. Nevertheless, the government doubled the benefits in April-June 2020 and again in January-June 2021 to support households during the economic slowdown. Since 2022, all allowances were increased by 10% and for households with three children they were doubled. Special categories receive lumpsum amount, which was tripled in 2022. In compliance with the EU's Macro-financial Assistance conditionality, the government also prepared a roadmap one revising the adequacy of benefits in 2023 and on establishing a mechanism for their annual indexation. Also the effectiveness of how social assistance is targeted will be assessed using EU-SILC and Household Budget Survey microdata. These activities are part of the *reform measure 4* ('*Increasing the coverage and adequacy of integrated social care system to reduce the share of the population at risk of poverty*'), which is rolled over from the previous year.

With a goal to foster social inclusion and labour market integration, in 2019, the Government put in place an exit strategy from the Economic Aid, which has recently received a first impetus for its implementation. The Exit strategy puts in place a maximum 5-year duration of the benefit to limit dependency on social benefits. On 26 January 2022, Ministers of Health and Social Protection and the Minister of Finance and Economy signed a Joint Ministerial Order on the referral of working-age beneficiaries. Individual action plans will be developed by multi-sectoral working teams involving State Social Services, local government units and employment offices. These plans will examine social situation, social service needs, training needs and employment opportunities. The initial goal is to provide active support to 5 000 beneficiaries. This is a good first step in fostering active inclusion, but it remains to be seen whether enough social services will be available and whether there will be enough capacity to offer active measures (vocational training or EPPs) – *see above under key challenge 1*. Support provided to social enterprises to help create jobs, as planned under *reform measure 4*, will also contribute to this goal, despite its modest target of employing 150 people by 2024.

The scarcity of social care services is a major obstacle to the active inclusion of vulnerable people. Out of 430 584 beneficiaries of social protection in 2021, 56% received social assistance payments, 34% disability allowances and only 10% (42 553) or 1.5% of the population benefited from social services (53% public, 27% non-public and 20% mixed). This shows that social services are scarce even for people with disabilities or socially vulnerable people let alone for the general population. In total, 493 social services are distributed unevenly across the country and are completely lacking in five municipalities (out of 61). Services for excluded young people, victims of trafficking and young people in conflict with law are lacking in 53 municipalities, services for adults with disabilities in 47, services for older people in 36, services for children without parental care in 32 and services for children with disabilities, victims of violence or families in need lack in 18 municipalities (SDC, MHSP, UNDP 2021).

All municipalities, except for one, developed local social plans by the end of 2021 but their implementation capacities remain weak. Donors and NGOs helped develop most of the plans and also delivered up to three days of training to municipality staff. However, periodic training and provision of technical support to local staff is lacking, resulting in weak capacities to assess needs, plan and deliver services. The State Social Services, which could

deliver training and capacity building, lack resources to do so. *Reform measure 4* aims to increase the capacity of municipalities without, however, elaborating on the details.

The state budget resources for developing new social services are only being increased very slowly and the mode of their disbursement highlights challenges posed to the sustainability of these new services. Municipalities must have a social plan in order to apply to the Social Fund, which was put in place in 2019 to help roll out new social care services. Despite virtually all municipalities becoming eligible in 2021, the budget for 2022 provides for the same allocation to the Social Fund as in previous years (ALL 200 million; approx. EUR 1.61 million) and the mid-term budget plans for only mild increases (ALL 216 million in 2023 and ALL 232 million in 2024). Moreover, it is unclear if support from the Social Fund at the level of 30% of the cost of new services will continue beyond the third year of the existence of newly established services, therefore posing a challenge to the sustainability of these services. Another weak point is the low capacity of most local governments to assess needs, apply for government funds and manage social services. *Reform measure 4* plans to develop 45 new services by 2024 with support from the Social Fund. However, the issue of their sustainability has not been addressed.

The Albanian healthcare system is underfinanced and there is a significant share of uninsured people. The budget allocation to healthcare as a share of GDP has been steadily increasing, from a low of 2.5% of GDP in 2008 to 3% in 2018, 3.23% in 2020 and 3.35% in 2021, with the latest increases being linked to the COVID-19 pandemic. This is below the allocation levels of regional peers (except for Kosovo) and significantly below the EU-27 average of 8.0%. Healthcare has been consistently receiving 10% or less of government spending, therefore not reaching the 12% share that the World Health Organisation recommends. There are around 600 000 uninsured people (21% of the population); they are principally informal workers, low-income groups, minorities (Roma/Egyptians), and people living in rural and peri-urban deprived areas (WHO 2020a). Albania faces chronic underfunding of primary healthcare, especially maternal and child health (UN 2020). The budgetary programme launched in 2018 has led to the reconstruction and equipping of 300 primary health care centres and has improved service provision in urban and rural areas. It is set to continue until 2025.

The government took progressive steps towards universal healthcare coverage. Uninsured people are entitled to free emergency care and the government put in place additional free entitlements irrespective of insurance status under the 2016-2020 Albanian National Health Strategy (ANHS). These entitlements are: (i) annual health check-ups for people aged 35 to 70 to detect non-communicable diseases, which is a rather entitlement in the world, (ii) visits to general practitioners and (iii) access to national breast and cervical cancer screening programmes. If admitted to hospital, the care and medications for uninsured patients are covered and, similar to insured patients, they only have to pay entry fees (between ALL 2 000 and 4 000). An additional 12 healthcare packages cover specific intensive therapies in private facilities, but uninsured people face fixed tariffs. Children under 18, students under 24 and recipients of Economic Aid benefits are entitled to free, mainly preventive, dental care in public facilities. In practice, most dental treatment is provided in private facilities and people, even if insured, must pay the full cost of care (WHO 2020b). In the coming years, the government aims to improve access to dental care and ophthalmologic care and devices for children.

High out-of-pocket (OOP) payments limit access to healthcare. The limited public spending has resulted in Albanian households relying on OOP spending, which represented

44.58% of current health expenditure in 2018, significantly above the EU-27 average of 15.57% and above regional peers. Heavy reliance on OOP payments, part of which is informal, results in significant financial hardship for households and may exacerbate inequalities and barriers to accessing healthcare (Tomini et al. 2015). For 16.7% of Albanians, more than 10% of their household expenditure goes on healthcare and for 5% of Albanians it exceeds 25%, shares that are considerably higher than for regional peers (WHO 2021). In 2015, 12.4% of Albanian households experienced catastrophic health spending (WHO 2020b). Albania faces an issue with financial protection for people on low incomes and other vulnerable categories. Outpatient medicines and care are not covered for uninsured people. Although the number of medicines on the government list has grown and state financing has increased, co-payments for outpatient medicines continue to exacerbate financial hardship (WHO 2020a). The chronically-ill benefit from the reimbursement of costs for drugs on the government list. The UN concludes that despite low public spending on healthcare, there is a potential to reduce the burden of OOP spending of poor people and people in vulnerable situations through coverage policy (UN 2020). In 2020, 9.1% of the population reported an unmet need for medical care due to its high cost. This is far above the EU-27 average of 1.1% and 3.3 pps. above the second worst performer (Greece). The main groups affected include persons with disabilities and chronic diseases, poor households, people aged 65 and over, and minorities (WHO 2018).

Albania is facing a shortage of doctors that could jeopardise access to medical care in the coming years. In 2020, the per capita ratio of medical doctors was 18.75/10 000, the lowest among candidate countries and potential candidates and significantly below the levels recorded in EU Member States (WHO data). The geographical coverage is skewed towards central and larger urban areas where medical specialists are concentrated, as opposed to remote and small districts. This results in difficult access to healthcare for people living in rural and remote areas who have to travel to Tirana and other bigger cities. These people also face extra spending for travel and accommodation, with extra hardship experienced by people with disabilities. The emigration of doctors is increasing due to low salaries, unfavourable working conditions, job and social insecurity (including a high number of lawsuits) and a lack of opportunities for professional development (SDC 2020). The 40% salary increase given to medical workers in 2021 is a step in the right direction, but it does not address the other factors driving health professionals out of the country. Another potentially positive step is an increase in the quota of medical students from 300 to 450 as of 2022.

Reform measure 5 ('Increasing access to health care') is rolled over from the previous year. It has been partially implemented, despite the distortions due to the COVID-19 pandemic. It tackles some challenges described above through expanding the coverage of free healthcare packages and preventive programmes, revising legislation on drugs, enabling dual practice for doctors to increase their motivation to remain in Albania and transforming hospital financing. The measure does not do enough to tackle high OOP expenditure, lack of access for vulnerable people to healthcare and outpatient medicine, and low public spending on healthcare in terms of GDP. More attention should be given to integrating primary, secondary and tertiary healthcare, and to the online training of healthcare staff. The measure does not include a breakdown of activities by year.

Key challenge #3: Improve the business environment and investment climate by increasing the pace of reforms and government support and tackling informality.

Albania's assessment in the ERP for 2022-2024 includes measures to tackle informal economy, notably fiscalisation, but it does not assess either the scale of the informal

economy or its impact upon the economy, even on government revenue. Similarly, while it does examine how both the earthquake in 2019 and COVID-19 affected the economy, it does not analyse the underlying business issues apart from the need for companies to focus more on innovation, particularly in the agricultural sector. In section 5.2.4 of the ERP on the business environment and the informal economy the analysis of obstacles under this section is limited to the informal economy, exposure of businesses to different aspects of informal economy and some corrupt practices that enable the ‘formalising’ of informal actions (this section seems to be the same with the one under Key Challenge 3, as part of the analysis is repeated there). This section is not comprehensive, as it does not analyse the numerous other issues that affect the business environment. These include frequent changes of relevant legislation, weak consultation of legal texts at the draft stage, weak contract enforcement, and issues related to the legal system and to property.

While the ERP for 2022-2024 describes issues caused by the informal economy and the Albanian government’s commitment to the “good governance of business” and to the reduction of corruption, it does not define what “good governance of business” is or describe other challenges to the business environment. Nevertheless, it describes how the government intends to tackle the informal economy, which it has identified as impeding fair competition and lowering revenue for the state budget. However, the sector analysis has not been updated – it still refers to the 2020 COVID-19 year and the negative impact of this on specific sectors as regards GDP. The analysis should have been for 2021, when Albania experienced positive growth. Furthermore, a sector performance analysis could have been included, though reference made to the Investment Council Secretariat survey on the impact of COVID-19 on businesses is welcome. However, a better and more complete assessment of the business climate would have better informed the analysis and, potentially, the means to tackle the informal economy, which is pertinent to the next point.

Albania’s business environment remains prone to structural weaknesses, with many companies having only limited capacities for production or innovation, and investment in skills development is low. Diversification of production and exports remains low. Frequent changes to the regulatory framework, low productivity as well as competition from a large informal sector remain major issues. Micro and small businesses, which account for a far higher level of employment and added-value than the EU average, struggle to access finance due to a lack of business know-how and skills, low financial literacy, and a high level of undeclared work. Around 20% of SMEs do not have bank accounts and cannot produce financial reports to obtain funding. In 2021, the government adopted its Business Investment Development strategy (BIDs), designed to stimulate innovation-driven and knowledge-based economy, create new, higher-quality jobs via the potential of the digital transition and the transformation of international value chains. It also emphasises sustainable development, including tapping into the green/circular economy, EU and regional integration. The government programme also anticipates two sovereign guarantees of EUR 50 million for businesses investing in digitalisation and innovation. However, the unified investment law is not yet in place, despite being drafted for several years.

The informal economy continues to constrain Albania’s economic development - according to the Business Environment and Enterprise Performance (BEEPS) survey, almost one-third of transactions have an informal aspect. 44.7% of companies reported competing against informal competitors, with 37.2% citing this as a major business obstacle, and it extends into many sectors. The share of informal employment was 36.2% in 2020, equal to 2017 levels, and in the agriculture sector it was 48.7%, though both were around 1%

lower than 2019. Informal employment remains common among young people (15-24 years old) with one in every two young people being in informal employment, especially for those with lower levels of education. However, the share of young people with higher education has increased by around 3 pps. compared to 2018, while the share of those with low levels of education has decreased by 2.3 pps.

While the measures, introduced in 2020 and continued 2021, set out to tackle the – informal economy may be useful, they are largely restricted to “fiscalisation”. This helps to address some aspects the informal economy by obliging many cash transactions to be turned into digital transactions. The informal economy in the labour market, mainly in the form of lack of a regular work contract accompanied by a lack of social and health insurance or contracts with under-declared salaries (and thus insurance contributions). While it is clear that commercial transactions via banks should be encouraged, if the necessary security is in place, the ERP does not examine the wider causes for the existence of the informal economy. Albania’s policies to tackle the informal economy are not comprehensive. They are focused more on the above measures rather than on structural or sector-specific issues. This is despite the Joint Conclusion from the 2021 ERP for Albania on adopting a strategy to address the informal economy, which was also a recommendation of the 2021 OECD competitiveness index (OECD 2021a).

The Economic and Investment Plan (EIP) for the Western Balkans will help increase the competitiveness of Albania’s economy backed by a green and digital transition. A substantial investment package, which is at the heart of the EIP, will direct most of the support towards key productive investments and infrastructure. This will support the twin green and digital transition and the development of an economy that is connected, competitive knowledge-based, sustainable, innovation oriented and thriving, with an increasingly dynamic private sector. Circular-economy principles form the basis for the Economic and Investment Plan and defined in the Green Agenda for the Western Balkans. The principles could significantly foster sustainable production and consumption. Increasing resources productivity within the economy would allow local SMEs to benefit from the business opportunities of increased resource efficiency and from further access to innovative technologies.

Building a common regional market has the potential to further increase competitiveness and growth. The common regional market is based on EU standards and will help the country integrate into regional and European value chains. It will also help make the economy more attractive for FDI in tradable sectors, notably by increasing the size of its market. Further connectivity with neighbouring countries in transport and energy will strengthen access to, and integration into, the regional market. The new Additional Protocol 6 of the Central European Free Trade Agreement (CEFTA) to liberalise trade in services also opens new opportunities in the dynamic service sectors, and therefore should be implemented swiftly. Regulatory and investment moves to create a regional digital space and more integrated labour markets with neighbouring economies will offer new possibilities for the Albania’s young people. This is especially important given the high rates of youth unemployment.

Reform Measure 06 “Strengthening the fight against informality”

This measure is carried forward from the 2021 ERP. It is well-designed, which can help to reduce of the informal economy. However, while it mainly focuses on aspects of fiscalisation, it does not form part a wider comprehensive strategy to tackle all aspects of informal economic activity and informal employment, though this was set out as a joint conclusion in

the 2021 ERP exercise. Implementation started in 2021. The actions planned in 2022 are expected to focus on wealthier individuals, using information held in public registers and received through inter-institutional cooperation. The proposed indicators are relevant. However, compliance for wealthier individuals is currently low and insufficiently enforced, and quite a portion of revenues is probably undeclared. In order to tackle informality more broadly it would also be necessary to ensure progress on property tax reform and initiatives to decrease tax loopholes. Furthermore, the breakdown for the expected costs is not provided, there is no indication as to what the source of funding is, and the risk analysis does not take into account the impact of the COVID-19 pandemic.

The ERP reports extensively on the ongoing fiscalisation process, providing concrete data for specific categories of businesses, though there is no explanation for why the rate of small businesses that have issued fiscalisation receipts remains below 50%. Feedback to the Commission from Albanian businesses and business organisations signalled that they generally consider fiscalisation a good initiative. Nevertheless, it may be premature for businesses that have challenges related to infrastructure or internet access, as for the latter in particular it is necessary to implement fiscalisation. However, according to the findings of the Ministry of Finance and Economy report on “*Support for digitalisation of SMEs in Albania to mitigate the COVID 19 pandemic impact to businesses*” around 98% of Albanian SMEs have an internet connection or have at least one employee who uses the internet for business purposes.

This measure ensures continuation of the actions to tackle the informal economy and informal employment, and the government is also working on finalising a draft medium-term revenue strategy (MTRS) that is expected to include the measures mentioned to tackle the informal economy in the ERP. Albania is planning to roll-out activities under this measure that target global income from taxpayers and individuals as well as a compliance programme for wealthier individuals. However, this may only target wealthier and more mobile workers. It is not clear how these actions will target workers without a contract, or without social and health insurance, or contracts with under-declared salaries, despite there being incremental increase targets on reducing undeclared jobs and lowering the level of undeclared wages (none of the targets address the lack of social and health insurance, although the state labour and social services inspectorate is developing risk assessment tools with ILO to tackle informality in the labour market, and on undeclared and underdeclared work, which is expected to be launched in 2022).

To build on this, strong inter-sectoral coordination is needed to analyse the underlying causes of the informal economy and informal employment, and then to design coordinated measures to address both the revenue and employment issues; This coordination is needed to address both informal economy and informal employment and monitor the results of the ensuing anti-informality measures in a comprehensive and integrated way. To this end, protocols and consultation mechanisms should be established to strengthen these dynamics, including the promotion of tripartite dialogue with both business and employees on issues of the informal economy and informal employment, as well as stronger means to ensure inspection.

Reform measure 07 “Developing a legal framework to support innovative start-ups”

This measure is carried forward from the 2020 and 2021 ERPs. However, its roll-out being planned for 2021 (as well as several follow-up activities), the law on innovative start-ups was only adopted in February 2022. This means that the of streamlining the institutional framework responsible for fostering research and innovation while also monitoring its impact

has not yet taken place. Although several activities planned for 2021 were not implemented, substantial progress was made on some fundamentals in late 2021. For example, the Ministry for Protection of Entrepreneurship, although understaffed, was formally given a mandate to provide support to start-ups. This led to EUR 10 million of funding being allocated for grants under start-up support programmes over 4 years. There was also some progress on the developing an action plan for the "Support for the development of innovative policies" - though this needs to be completed and implemented.

The government is showing momentum and commitment to nurturing the nascent innovation ecosystem. The activities planned for 2022/2023 under reform measure 03 should create better conditions for Albania to benefit from its commitments under the innovation agenda for the Western Balkans and Horizon Europe.

After the law on innovative start-ups the activities was adopted, the activities planned for 2022 include drafting the necessary secondary legislation, establishing the start-up agency, and continuing to implement of the (EU-funded) project on innovation. However, the start-up agency that should provide the support measures to innovative start-ups is only expected to be fully up and running in 2024. Furthermore, there are no baselines for several indicators for this measure, and none of the intermediate targets or the 2024 targets will be easily measurable so as to provide concrete indications of their real impact, as they are mostly process indicators. Furthermore, the risks identified include measures such as adopting legal acts. This is largely within the control of the national authorities, so it is unclear why they are cited as risks. Furthermore, responsibilities have yet to be allocated for implementing the Smart Specialisation Strategy (S3) (reform measure 10). This needs to be resolved, especially in light of Albania's commitments under the innovation agenda for the Western Balkans and Horizon Europe.

Reform measure 08: "Support measures to MSMEs"

This reform measure in ERP 2022 seems very closely linked to the measure "Improving access to finance for SMEs" contained in the ERPs for 2020 and 2021. The activities under this measure planned for the coming period are mostly focused on providing support for digitalisation, notably support to SMEs, including training, developing a portal on digital marketing, capacity building, helping SMEs to digitalise, and providing instruments to improve their access to finance. These activities are welcome, and could increase competitiveness, if they are also matched with a substantial increase in the institutional capacity of business support services.

However, the description of the measure could have been clearer. Several ongoing initiatives are mentioned, including ongoing programmes, e.g. advisory instruments for MSMEs. Legal initiatives for MSMEs are also mentioned, such as the adoption of BIDs (see above), which is the basis for many of the activities. The references to the 2021 OECD Competitiveness report are welcome. However, the text only mentions statistics provided up to 2019. Statistics could have been included from Albania's Institute of Statistics' (INSTAT) report issued in November 2021. According to INSTAT's 2020 survey, businesses with 50 or more employees provide 40.8% of total employees and 46.2% of turnover, although they account for only 1.3% of active businesses, therefore providing the main contribution to the economy.

The activities expected for 2022 under this measure are very ambitious; it will be a challenge to implement them all as planned. In general, it is difficult to match what is mentioned description of the measure's in the ERP 2022-2024 with the activities planned. Nevertheless,

Albania Union of Chambers' establishment of the digital market matching portal is mentioned; to date the inclusion of a private sector activity under the ERP activities has been rare. However, the intermediate indicator targets do not comply with the time frame for this exercise, which is June 2022 rather than end 2022, and the final targets are foreseen in 2023 - although activities are planned to go on into 2024. In addition, the indicators for results do not reflect the description of the measure or the activities. They are also not ambitious; e.g. the number of users of centralised information platform, which is reported as being operational since May 2020, only anticipates 1 000 users in the baseline year, expected to increase to 2 000 in 2023. This seems more appropriate for a pilot activity. It seems rather low compared to the potential need. According to the INSTAT data, Albania has 101 000 SMEs (with less than 50 employees) and around 88 000 MSMEs with 1-4 employees.

The potential risks identified under this topic are identified as being high, yet the measures include legal adoption, which is largely within the control of the national authorities (so it is unclear why they are cited as high risk). If the risks are high, further risk mitigation measures are needed in addition to awareness raising efforts.

Reform measure 09 “Modernisation of retail payment instruments”

This measure was also carried over from both the 2021 and the 2020 ERPs. It aims to create the conditions needed to improve the range of available banking services. This measure has several potential objectives. It should help to improve access to finance, therefore increasing the level of entrepreneurship, and also help to combat the informal economy, money-laundering¹¹ and tax evasion. Furthermore, it should help Albania to align to the EU *acquis* (on payment accounts). The measure is well designed, and the activities are outlined clearly, with a specific time frame and funding, as are the risks and mitigating measures.

This measure is also pertinent as the number of electronic transactions have increased considerably during the COVID-19 pandemic, and the banking system was able to provide for this service, having been required to do so by the unprecedented conditions. As signalled in the Commission's report on the 2021 ERP, the description of this measure does not explore potential synergies with other government measures such as the payment of social benefits, despite these being mentioned in the ERP (in the part entitled “*Main recommendation on the analyses Government Payment Digitization*”). Several of the measure's indicator targets are unlikely to give any concrete indication of the measure's impact, as they are statements as opposed to being quantifiably measurable.

¹¹ Albania was “listed” by the Financial Action Task Force (FATF) as a “jurisdiction under increased monitoring”, due to strategic deficiencies in its Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) regimes. After being “listed”, Albania made a high-level political commitment to work with FATF and agreed a specific action plan to be implemented to ensure effective AML/CFT regimes compliant with FATF Recommendations.

Box: Monitoring performance in light of the European Pillar of Social Rights¹²

The European Pillar of Social Rights, proclaimed on 17 November 2017 by the European Parliament, the Council and the European Commission, sets out 20 key principles and rights on equal opportunities and access to the labour market, fair working conditions, and social protection and inclusion for the benefit of citizens in the EU. The European Pillar of Social Rights Action Plan, adopted on 4 March 2021, aims at rallying all relevant forces to turn the principles into actions. Since the 20 principles provide a compass for upward convergence towards better working and living conditions in the EU, they are equally relevant for candidate countries and potential candidates. The new reinforced social dimension for the Western Balkans includes an increased focus on employment and social reforms through greater monitoring of relevant policies (EC, 2018). The Western Balkans Ministers' Declaration on improving social policy in the Western Balkans (6 November 2018) confirms that they will use the Pillar to guide the alignment of their labour markets and welfare systems with those of the EU.

Relative to the EU-27 average, there is scope for improvement in most available indicators of the Social Scoreboard supporting the European Pillar of Social Rights.

Albania has steadily improved employment and unemployment rates, being one of the best performers among candidate countries and potential candidates, and showed relative resilience during the COVID-19 slowdown in 2020. Further improvement in employment results has been hindered by the high NEET rate, which increased slightly in 2020 (1.1 pps.), placing Albania among the worst performers among candidate countries and potential candidates. Another hindrance is the gender employment gap, which was wider than that in the EU-27 in 2020 (15.2 pps. vs 11.0 pps.), but a slight improvement can be noted in recent years. This gap is in part driven by the low provision of early childhood education and care, especially for children under 3. Unemployment, especially long-term, is still far higher than the EU average, which is partly due to low provision of active labour market policies. Albania is a medium performer in the region as regards the income quintile ratio.

ALBANIA		
Equal opportunities and access to the labour market	Early leavers from education and training (% of population aged 18-24)	Worse than EU avg., improving
	Individuals' level of digital skills (basic or above basic)	Worse than EU avg., trend N/A
	Youth NEET (% of total population aged 15-29)	Worse than EU avg., improving
	Gender employment gap	Worse than EU avg., improving
	Income quintile ratio (S80/S20)	Worse than EU avg., improving
Dynamic labour markets and fair working conditions	Employment rate (% of population aged 20-64)	Worse than EU avg., improving
	Unemployment rate (% of population 15-74)	Worse than EU avg., improving
	Long term unemployment rate (% of population 15-74)	Worse than EU avg., improving
	GDHI per capita growth	N/A
Social protection and inclusion	At risk of poverty or social exclusion (in %)	Worse than EU avg., improving
	At risk of poverty or social exclusion rate for children (in %)	Worse than EU avg., improving
	Impact of social transfers (other than pensions) on poverty reduction	Worse than EU avg., improving
	Disability employment gap	Better than EU avg., improving
	Housing cost overburden	Better than EU avg., improving
	Children aged less than 3 years in formal childcare	Worse than EU avg., trend N/A
	Self-reported unmet need for medical care	Worse than EU avg., improving

Albania has a very high share of low-skilled adults and high but decreasing rates of early school leaving. There are significant rural-urban and socio-economic differences in access to education. Albania's early school leaving rate decreased from 21.3% in 2015 to 15.6% in 2020, but it remains among the highest in candidate countries and potential candidates. Annual participation in adult learning is very low (9.2% in 2017) compared to the EU (37.4% in 2016). The overall level of digital skills is far below the average of candidate countries and potential candidates.

Risks of poverty and social exclusion are very high and the capacity of the social protection system to reduce them is low. This is documented by the limited impact social transfers (excluding pensions) have on poverty reduction which was only 12.10% in 2020 compared to 32.68% in the EU. Albania is among worst performers in terms of rate of poverty and social exclusion (46.2%). Although there is a social assistance scheme, the allowances are not adequate. However, the government temporarily increased their adequacy in 2020 and 2021 and embarked on a process leading to a systemic increase in the benefits. The capacity of local governments to provide social care is very low, but the central government is paying more attention to this situation and supports financially the establishment of new services. The pension system has almost universal coverage, albeit with low pensions. About 600 000 adults, mainly informal workers, do not have health insurance, but access to universal healthcare has been improving over recent years. In 2020, 10.6% of people reported an unmet need for medical care. While this value has improved over the last four

years, it is still almost six times higher than in the EU (1.8%).

Data availability improved in 2019 with the first publication of the Survey on Income and Living Conditions (EU-SILC), but some headline indicators of the Social Scoreboard are still not measured. Employment data are regularly measured by both the Labour Force Survey (LFS) and the National Agency for Employment and Skill. LFS data are not yet available in Eurostat, but INSTAT has been sending LFS microdata to Eurostat since 2017 and has been working on its quality, timeliness and validation.

¹² The table includes 16 headline indicators of the Social Scoreboard, used to compare performance of EU Member States (<https://ec.europa.eu/eurostat/web/european-pillar-of-social-rights/indicators/social-scoreboard-indicators>). The indicators are also compared for the Western Balkans and Turkey. The assessment includes the country's performance in relation to the EU-27 average (performing worse/better/around the EU-27 average; generally 2020 data are used for this comparison) and a review of the trend for the indicator based on the latest available three-year period for the country (improving/deteriorating/no change). For data see Annex B. NEET: neither in employment nor in education and training; GDHI: gross disposable household income.

5. OVERVIEW OF THE IMPLEMENTATION OF THE POLICY GUIDANCE ADOPTED AT THE ECONOMIC AND FINANCIAL DIALOGUE IN 2021

Every year since 2015, the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey has adopted targeted policy guidance (PG) for all partners in the region. 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 PG is similar to that of the country-specific recommendations usually adopted under the European Semester for the EU Member States. The Commission evaluates the work carried out to implement the policy guidance in the following year's ERP assessments. The table below presents the Commission's assessment of implementation of the 2021 policy guidance jointly adopted by the EU and the Western Balkans and Turkey at their Economic and Financial Dialogue at Ministerial level on 12 July 2021.

Overall: Partial implementation (43.1%)	
2021 policy guidance	Summary assessment
<p>PG 1:</p> <p>Conditional on the economic recovery becoming well entrenched, foresee in the 2022 budget and medium-term fiscal plan a gradual reduction of the public debt ratio and, based on a realistic revenue forecast, a return to a positive primary balance as of 2023 in compliance with the corresponding fiscal rule.</p> <p>Complete the Medium-Term Revenue Strategy and begin its implementation in line with the inter-ministerial committee agreement but at the latest before the next ERP submission.</p> <p>Increase the institutional capacities of the fiscal risk unit to continue and expand its work without reliance on external assistance</p>	<p>There was partial implementation of PG 1</p> <p>1) Substantial implementation: The 2022 Budget and MFF include an extended planning horizon, which outlines a gradual reduction of the public debt ratio, albeit at a slower pace than planned in last year's ERP (these projections could not yet take into account the expected significant fallout of Russia's invasion of Ukraine). The primary balance is projected to be neutral in 2023 and positive in 2024 in line with the original fiscal rule, which was postponed to 2024 by normative act in 2021. The revenue forecast is slightly optimistic considering historical averages but could be realised by means of the implementing the MTRS.</p> <p>2) Partial implementation: The commitment to the MTRS has strengthened since October 2021 and its development has accelerated but it is not yet completed. The inter-ministerial committee envisaged the implementation of the MTRS in 2022. However, in order to allow for a serious public consultation its implementation could not begin before the ERP's submission. However, the fiscal package for 2022 already includes some of the measures planned under the MTRS (without consultation).</p> <p>3) Limited implementation: The fiscal risk unit continued to expand their scope of work with the support of the World Bank, but its staffing did not increase.</p>
<p>PG 2:</p> <p>Continue to reduce the stock of contract-based arrears; reduce VAT arrears to zero in 2022 and analyse the reasons for the increasing arrears of local governments.</p> <p>Assess and approve all investments, which involve</p>	<p>There was partial implementation of PG 2.</p> <p>1) Substantial implementation: VAT refund arrears were almost at zero by the end of 2021, the stock of contract-based arrears decreased, and the reasons for the increasing local governments' arrears were reportedly analysed along with a draft plan to reduce them.</p> <p>2) Limited implementation: There was no progress</p>

<p>public funds including PPPs, through the same approval process and continue to report actual earthquake reconstruction expenditure in the consolidated budget implementation.</p> <p>Re-orient public expenditure composition towards development of human capital and innovation by foreseeing a continuous gradual increase of expenditure on education, health, social security and R&D in terms of shares in total expenditure.</p>	<p>made on the approval process, but basic treasury reporting of reconstruction expenditure continued during the implementation of the consolidated budget implementation report. Implementation of reported plans to improve public investment management including PPPs is likely to be hampered by institutional restructuring of the management of external assistance.</p> <p>3) Limited implementation: The ERP plans a gradual, minimal increase of expenditure on education (10.5 to 11.5%) and health (9.9% to 10.5%), but from a very low 2021 level. However, the programmed increase will allow expenditure shares to recover only to 2019 levels by 2023 and 2024 respectively. In terms of GDP no change is projected. For social protection expenditure, which increased in 2020 to 33% only to drop sharply to 28% in 2021, a slightly increase is planned to 30.1% in 2024, still 2 pps. below 2019 expenditure share levels and just 0.2pp above them in terms of GDP. All three expenditure categories are somewhat ring-fenced from cuts for fiscal consolidation but no significant change in expenditure composition planned until 2024 despite a drop in capital expenditure from 2023. Regarding R&D, the ERP claims that the Ministry of Finance and Economy is not able to calculate such spending, but the IMF does calculate it based on GFS data: in 2020, the general government's R&D expenditure stood at EUR 25 million, equal to 0.58% of total expenditure and 0.19% of GDP, after a 17% increase in 2019. In order to maintain these shares the expenditure would need to grow by about 6% each year. To reach 1% of total planned expenditure an annual increase by at least 20% would be necessary, which would be equal to 0.3% of GDP.</p>
<p>PG 3:</p> <p>Maintain a strong financial sector regulatory framework in line with international and EU best practices, ensure sound credit risk management, a transparent display of asset quality and adequate provisioning.</p> <p>Further reduce remaining institutional and legal obstacles to swift and effective NPL resolution, including by resolving the bailiff deadlock and strengthening bankruptcy proceedings.</p> <p>Continue with the implementation of measures aimed at promoting the use of the national currency,</p>	<p>There was partial implementation of PG 3.</p> <p>1) Substantial implementation: The central bank has conducted a compliance self-assessment with PWC Spain (with support from the European Bank for Reconstruction and Development) regarding the equivalence of Albania's supervisory and regulatory framework with that of the EU. Financial stability challenges were monitored closely, and prudential measures related to the pandemic were phased out in time. The central bank is now conducting an asset quality review of the five major systemic banks, while maintaining restrictions on dividend distribution, which is conditional on increased macroprudential requirements. Provisioning increased through 2021 and seems adequate.</p> <p>2) Partial implementation: Albania made progress in completing the bankruptcy legislation by adopting the remaining by-laws. No progress has been made in resolving the bailiff impasse which continues to delay collateral execution.</p> <p>3) Limited implementation: Some progress was made in developing the market for hedging instruments,</p>

<p>including by developing the market for forex hedging instruments.</p>	<p>as the Bank of Albania started publishing bids and asking for prices for quotations collected from banks and introduced 3-month outright forwards as an instrument for changing its reserves. There was no progress and there are no plans to introduce measures to increase the use of the national currency in the realm of the government</p>
<p>PG 4:</p> <p>Provide enhanced business support services to improve access to finance and entrepreneurial know-how.</p> <p>Improve transparency in the adoption and implementation of legislation particularly by ensuring an effective timely consultation of businesses and social partners on the new legislation affecting their operations.</p> <p>Draft and consult a comprehensive strategy to tackle and monitor all aspects of informality, with an action plan with baselines, including clear and measurable targets and establish the regular a performance-based monitoring of its implementation and results.</p>	<p>There was limited implementation of PG 4.</p> <p>1) Limited implementation: there are plans to improve business support services, notably under the BIDs for 2021-2027, adopted in August 2021. However, the national authorities admit that the funds in question are rather limited and there is a lengthy application process. Few results were achieved in 2021.</p> <p>2) Limited implementation: Consultation with private sector remains weak, and not effective particularly on issues such as the fiscal policy package.</p> <p>3) No implementation: this did not happen. Discussions are ongoing to see if something similar can be provided for under the MTRS</p>
<p>PG 5:</p> <p>Establish an inter-ministerial task force involving relevant ministries, their agencies, and stakeholders to develop a Youth Guarantee implementation plan.</p> <p>Develop institutionalised tools to monitor skills needs in the labour market with an aim to provide relevant career guidance and to improve the offer of short-term vocational courses accordingly.</p>	<p>There was substantial implementation of PG 5</p> <p>1) Full implementation: The Ministry of Finance and Economy, with the help of EU-financed technical assistance project, has been working on analyses on the development of the Youth Guarantee Implementation plan, such as the mapping of young people not in employment, education or training, and on analysing the legal framework. On 24 February 2022, Order of Prime Minister No. 28 'For the establishment of the inter institutional working group and technical group for the establishment, implementation and monitoring of the national plan for the Youth Guarantee scheme and for assignment of the national coordinator' was approved, implementing the policy guidance. In the next phase it will be essential to fully involve relevant ministries, their agencies and stakeholders (social partners, NGOs, in particular youth organisations) to develop the plan.</p> <p>2) Partial implementation: With the help from donors, the National Agency for Employment and Skills has piloted a regional labour market analysis in Elbasan. NAES plans to deploy it in other regions. NAES has also started work on developing a labour market observatory which will add to existing administrative and survey data and conduct the scraping of big data. For 2022, the repetition of skills needs analysis (last conducted in 2017 by UNDP) is planned with UNDP's help. This will involve the transfer of know-how to NAES, which aims to conduct this analysis autonomously in 2025. The skills' anticipation study (methodology) in the agricultural sector (dairy</p>

<p>Incentivise the link between innovative businesses and academia in the upcoming draft Strategy on Business and Investment Development 2021-2027 by including clear targets to increase science and research funding and by creating the conditions for the development of business incubators.</p>	<p>and wine value chains) developed with the ILO support, will assist the sectoral skills committees to be established by the NAVETQ.</p> <p>3) Partial implementation: The measures indicated are promising, but are yet to be implemented as they are planned for 2022 and beyond. Some progress has been made on research and innovation, as mentioned under reform 03 and 07, regarding a) the increase of funding (although still far from 1% of GDP as targeted in the National Strategy for Science, Technology and Innovation) and b) the allocation of EUR 10 million of public funding to start-ups support programmes for 4 years. These are now beginning (the first calls were expected in Q2 2022).</p>
<p>PG 6:</p> <p>Perform an assessment of the adequacy of benefits under the ‘Economic Aid’ scheme, taking into account the data from the ‘Statistics of Income and Living Conditions’ survey, in view of their systemic adjustment.</p> <p>Build capacities in local governments to apply for support from the Social Fund and to plan, manage and deliver social care services.</p> <p>Redesign coverage policy, including for outpatient medicine, to reduce unmet need for medical care and financial hardship, particularly among persons with disabilities and chronic disease, poor households, people aged 65 and over, and minorities</p>	<p>There was limited implementation of PG6:</p> <p>1) Partial implementation: Albania has adopted a roadmap with relevant activities to assess the adequacy of benefits. It aims to adjust their adequacy as of 2023 and to establish a mechanism for their annual indexation. The assessment is being carried out with help from the World Bank and is expected to be finalised in of the first quarter of 2022. Furthermore, proposals for draft by-laws are expected by June 2022, with their adoption and the allocation of an appropriate budget expected for 2023.</p> <p>2) Limited implementation: Despite developments in the drafting and approval of social plans in 60 out of 61 municipalities, implementation remains limited. The social plans were developed with help from donors and NGOs, which provided up to 3 days of training to municipality staff. Nevertheless, the capacities at local level to plan, manage and deliver social services remain weak. The State Social Services agency lacks internal capacity to put in place a capacity-building system for municipalities.</p> <p>3) Limited implementation: The government has yet to take any comprehensive measures to address this policy guidance. Some targeted measures are planned, such as increasing reimbursement for laboratory analyses, or improving access to dental care and ophthalmologic care and devices for children. Other priorities include increasing the budget for drugs provided for outpatient and hospital care and to developing a new methodology for drafting the list of drugs subject to reimbursement, which could lead to lower co-payments. It is unclear whether annual caps on co-payments will be introduced, which could decrease financial hardship for vulnerable households or increase access to medicines. Adequate measures are needed to ensure full access to medical care, especially for patients with chronic diseases or with disabilities, in particular for patients living outside Tirana (i.e., at local level). The financial resources allocated so far are not sufficient to ensure that these people’s specific needs are met.</p>

ANNEX A: ASSESSMENT OF OTHER AREAS AND STRUCTURAL REFORM MEASURES INCLUDED IN THE 2022-2024 ERP

The 2022-2024 ERP identifies the areas where - the most significant key obstacles exist, such as the business environment, education and skills, labour and employment, the informal economy, and research and development. It also continues to address the negative impact the COVID-19 pandemic and the 2019 November earthquake had on the economy due, identifying tourism and services as being among the hardest hit sectors. It provides a general assessment of the current reforms towards formalisation of the economy, while acknowledging that informal economic activity remains a significant concern, as illustrated by the high number of cash transactions and non-declared workers. However, there is limited analysis of the sectors where the informal activity is most prevalent, and the challenges encountered when trying to tackle it. The text describes the challenges in the education system and the need to better match the skills offered through the education system and vocational education and training (VET) with market demand. The text also addressed aspects of closer cooperation between the private sector and universities/schools.

Infrastructure challenges related to energy, water and the transport sector should have been included in this part of the text. The low level of digitalisation, innovation, and research and innovation capacities - which generate the increased demand for both new services and improved infrastructure and knowhow - were also not analysed in the text, even though the ERP includes reform measures to address these obstacles. The level of foreign direct investment (FDIs), product diversification, and exports all affect the country's competitiveness and growth and its ability to create jobs, but these are also not analysed. Furthermore, issues with the rule of law, corruption, unclear property titles and the proper functioning of the judiciary system still hinder businesses and reduce Albania's attractiveness for foreign investments.

Public financial management

The analysis of this area is extremely short. It is also incomplete, as it only mentions issues on public strategic investment, notably obstacles mentioned in Albania's public investment management assessment (PIMA) conducted by the IMF in 2016. However, public financial management is far wider than this, notably including the delegation of decision making, managerial accountability, and internal and external auditing. The analysis should have covered the obstacles in this whole area. This could have been done, as many such obstacles are being addressed under Albania's 2019-2022 PFM Action Plan (2019-2022 PFM strategy). The risk analysis is also incomplete – most of the mitigating measures are missing, and the “high” risk item (“risk of law changes”) seems to be entirely within the control of the authorities.

Reform measure 10 “Public Strategic Investments”

The actions planned for 2022 seem to be relevant – and include developing a public investment strategy to guide public investment and preparing and maintaining the single project pipeline, which are useful and necessary. The assessment of obstacles and challenges in public investment management is realistic and is based on the IMF PIMA findings from 2016, which still seem to be realistic. The proposed measure – drafting the Public Investment Management strategy – will also address one of the unmet PG recommendations on assessing and approving all investments, which involve public funds and PPPs, through the same approval process.

However, the description of the main obstacles in the area and of measure are extremely short, so it is barely possible to get a complete understanding of the obstacles and the response. In addition, the final targets are missing altogether, so it will be very difficult to evaluate their success.

Green transition

The 2022-2024 ERP is very weak on the green transition. It contains an analysis that starts with a description of the European Commission's plans in the area rather than those of Albania. The analysis of the main obstacles in the text is short, stressing its alignment with that of the Green Agenda for the Western Balkans, shaped around 5 areas of intervention: i) decarbonisation, ii) circular economy, iii) pollution reduction, iv) sustainable farming and v) biodiversity. The analysis recognises that this is new for Albania and that awareness of the green economy is generally weak.

Though brief, the analysis of the obstacles appears to be realistic. It admits that there is currently a low level of political interest and a lack of knowledge in the country about the opportunities presented by the green economy, as well as a lack of skills. These are challenges to both the development of national policy on this and on cross-sectorial uptake of the concept. In its analysis Albania acknowledges that, in order to ensure proper implementation of green economy programmes, it is crucial that public institutions need to be strengthened to remove institutional barriers, protect the environment and reconcile socio-economic objectives.

However, though Albania has endorsed the Green Agenda for the Western Balkans, the ERP 2022-24 should does not include measures which address these issues or that increase the capacities in the environment sector. It is hoped that the next ERP will do so - key issues in this regard that could be addressed in the next ERP include pollution reduction and waste, which is a priority of the current government in the environment sector. Uncontrolled and untreated pollution bears long-term environmental and financial cost for the economy, especially for the sustainability of tourism, agriculture, and fisheries sectors, as well as generating negative public health impacts that also a have negative impact on productivity. Furthermore, as mentioned above, although it is a reform priority for Albania (and was included in ERP 2021-2023) in order to ensure water supply, improve water quality, proper wastewater treatment, ensure access to water in tourist areas, improve good governance and reduce non-revenue water use stemming from informal connections, wastewater is no longer included in ERP 2022-2024 as a reform measure.

Energy market reform

This part of the analysis is well developed in terms of identifying the main obstacles in the energy sector. Power generation in Albania remains vulnerable to the hydrological situation; this influences the need for electricity imports to secure an uninterrupted power supply in the country, and increases the financial burden for the state-owned power generation company. Electricity prices for households and SMEs are highly subsidised, which disincentivises the energy efficiency measures in addition to weighing on fiscal accounts. Diversifying energy sources, incentivising energy saving or investments into energy efficiency as well as potentially adjusting currently untargeted support in form of stable electricity prices for all households and MSMEs are important areas for discussion in the context of fiscal sustainability. However, as Albania is a member of the Energy Community the text should also have foreseen the timely alignment to and implementation of the EU Energy Efficiency

Directive (2018/2002/EU), following the adoption of the Clean Energy package in November 2021. As part of the efforts to improve connectivity and security of supply, the power line interconnecting Albania and Kosovo has become operational.

Reform Measure 13: “Liberalisation of the energy market”

The measure to liberalise the energy market was rolled over from the two previous ERPs, where it was entitled “Further liberalisation of the energy market”. The measure is important for raising the competitiveness of the sector and of the economy through efficient production and distribution and competitive electricity prices. The activities planned are likely to help achieve this aim, except the Skavica HPP project, which seems to be unrelated to the measure. The indicators selected are not well aligned with the measure’s objectives and should be reviewed. A good indicator would be the number of customers supplied through the free market, as well as the number of independent producers of renewable energy (or total renewable power installed) selling electricity through the free market.

Reform measure 14: “Diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements”

This measure on diversifying energy sources was also rolled over from the two previous ERPs. It includes promoting the use of renewable energy sources other than hydropower. The activities promoting other renewable energy electricity generation are important for reducing the country’s dependency on energy imports, and ultimately aim to reduce the cost of energy for the economy. Energy efficiency activities, although likely to produce results further into the future rather than in the short term. However, energy audits and feasibility/design studies should be in higher focus in the measure and should be boosted in the period 2022-24, in order to advance the technical maturity of energy efficiency projects and accelerate their financing and implementation programming. The number of studies that have already been completed and the number of projects financed would have been useful indicators for this measure.

Transport market reforms

The analysis is well developed in terms of identifying the main obstacles in the transport sector. It states that further reforms are necessary in this area; Albanian companies in the World Bank 2019 Enterprise survey identified transport as one of the main obstacles to improving the business environment. There is now a new National Transport strategy for 2021-2025, which notably involves the building of the intermodal railway connection linking the new Port of Durrës in Porto Romano with the energy park, in line with the National Transport plan. In addition, on 1 July 2021, Albania adopted a legal package that entered into force on 20 August 2021. This comprised four laws with regard to the institutional framework, establishing an independent railway regulatory authority, a railway safety authority, and a national investigation authority on rail and maritime safety.

Reform measure 15: “Rehabilitation and construction of the railway segment Durrës-TIA-Tirana”

This measure has been rolled over from previous ERPs. Upgrading and extending the Durrës-Airport-Tirana railway will increase intermodal transport, and should double the speed of passenger and freight transport between Tirana and Durrës, boosting traffic and reducing road congestion. A contract for upgrading the Tirana-Durrës railway was signed in early February

2021. This strategic investment also benefits from EU funding under the European economic and investment plan. It forms part of Rail Route 2, linking the capital of Albania, Tirana with the capital of Montenegro, Podgorica, and is extended to the port of Durrës. This is a key project for the region. Project-level indicators are used and need to be further developed to reflect the sector reform, which includes information on electrifying the railway line, although there is little indication on when this will take place. New information has been added about the link between investment and the revised National Transport plan.

There has been no progress on this measure and the proposed activities were all postponed by one year. Most of the comments in the previous ERP assessment are still valid. Progress has been slower than expected. The document does not explain the reasons behind these substantial delays. The risks and mitigating measures are well presented, as is the impact on job creation (including the impact on the gender balance principle) and the environmental and energy efficiency considerations.

The ERP also flags that this measure should enable Albania's rail system to move toward alignment with the EU rail system and that it will be relevant to the green agenda. Contrary to the previous ERP, the 2022 ERP mentions urban planning and land acquisition and the potential risk from land expropriation. This issue was introduced in this ERP, and it is elaborated upon. However, the ERP does not include the reasons preventing this process from being completed. The issue has resulted in all dependent activities being delayed. Furthermore, the measure should reflect in its indicators that cargo activities from the Port of Durrës will be relocated to a new port which is to be constructed near Porto Romano. The timeline of the activities for 2022 and 2023 need to be revised taking into consideration delays in the project so far.

Agriculture, industry and services

The analysis of the main obstacles in the ERP for 2022-2024 is concentrated on the agriculture and tourism sectors. However, it fails to address obstacles in industry or other service sectors. This limits the ERP's usefulness as a document for economic policy coordination and prioritisation, meaning that the coherence of economic policies is not ensured. The analysis of the agricultural sector is quite long but it is incomplete, not least as it fails to mention the impact of EU IPARD support. The agricultural sector managed to survive the COVID-19 pandemic crisis in 2020. It even achieved positive growth in the first three quarters of 2020 and its positive contribution to growth continued during 2021. However, it remains prone to structural problems such as land consolidation, land fragmentation, and property ownership issues. These are obstacles which are well addressed in this ERP, as opposed to the previous ERP.

Obstacles regarding maritime tourism are well defined, highlighting the impact of the pandemic on the tourism sector as whole. However, structural problems such as land consolidation, land fragmentation, and property ownership issues are not addressed.

As regards industry, the ERP for 2022-2024 does not provide any analysis for this important sector, as was the case in the ERP for 2021-2023. This is a significant shortcoming. It even does not mention, at least in this regard, the recent Business and Investment Development strategy that Albania adopted in 2021, even though the sector-specific analysis and recommendations normally contained in such a document would logically have been relevant to several sectors in the economy, including industry.

As regards services, the analysis examines the impact of the COVID-19 pandemic on this sector, notably the significant consequences for the tourism sector. The impact on tourism in 2021, as in 2020, may be even more pronounced than in other countries in the region apart from Montenegro, due to the size of the Albanian sector. However, the analysis of areas in the service sector, aside from tourism, is very weak

Reform measure 16: “Better marine and maritime governance and services”

This was a new measure in the 2021 ERP, focused on maritime tourism. The same comments apply as in 2021 – the reform is small in scale and seems to be an isolated initiative, based on some legal reforms. Within these limits the analysis identifies the main obstacles in the sector, which will require an in-depth and comprehensive reform to address them properly. However, the proposed measure is very limited. It should ideally have been treated as part of a larger picture, where relevant policies/plans regarding marinas/ports should be also considered. On the other hand, taking into consideration the impact of the COVID-19 pandemic on tourism, the diversification of tourism products is welcome.

The description of the measure has improved compared to the last ERP, with clear references to the strategic policy documents, and other sector reforms, such as those related to the blue economy and the financial approach to incentivise maritime tourism. The legislation was due to be finalised in 2021, but was not completed and has been partially postponed. The description of the measure focuses on the legal framework and is insufficient to give a clear picture of the current conditions in the sector, whereas a clear overview is needed to understand the impact of the proposed measure. Despite this, within these constraints the activities are well planned and detailed. They are feasible and are relevant to the proposed measure.

However, apart from one exception, baselines are not included, and neither are final targets in any meaningful way. While the reforms in the tourism sector are welcome, as it is an untapped sector with high potential for economic development, this measure still needs to be integrated better into the overall sector development policies and plans. The risks have been clearly identified, including the impact of the pandemic.

Digital transformation

The analysis of the main obstacles in the areas of digital transformation and digital economy comprises a list of current and ongoing initiatives rather than a presentation of the overall picture or an analysis of the current challenges, objectives and issues. However, it does mention the objective to increase broadband penetration, and that a new national broadband plan is being rolled out. This plan aims to: 1) build up broadband infrastructure; 2) strengthening financing and broadening the criteria for receiving funding; 3) step up spectrum management; and 4) ensure sustainable competition. The analysis also mentions that a key new element in the plan is providing public funding through a universal service obligation and through State aid to increase the build-up of infrastructure to cover rural and remote areas. It also mentions the legal basis. However, there is no overall analysis of the current obstacles in this area.

Reform measure 11: “Development of the broadband infrastructure for digital economy”

This measure was carried over from the 2020 and 2021 ERPs. The information on the reform has been updated, supplemented with new developments in the sector, and highlights the European Green Deal. In addition, the measure is analysed in light of the ongoing COVID-19 pandemic and its impact in the sector. The reform was well-prepared, it will have a clear impact on the economy, and it is in line with the EU strategy for the digital agenda in the Western Balkans. Albania has low broadband penetration, particularly in rural areas, and the proposed measure clearly addresses this obstacle. The measure also takes into account the ongoing crisis due to the COVID-19 pandemic and its impact on the sector.

The measure states that it will build upon two major activities that were completed in 2020: the adoption of the national broadband plan, and the completion of the feasibility study and cost-benefit analysis for the broadband infrastructure. However, the explanation seems focused on EU initiatives and the planned time-frame is rather vague, with broad aims such as “investments in white areas” without any further details provided for 2023 or 2024. In fact, there is no information about whether all activities planned for the year 2021 have been completed. The adoption of the new law on electronic communications, in line with the new European Electronic Communication Code was not finalised in 2021 despite this being planned initially, yet this was not in the activities for 2022. The same is true for capacity-building activities. It is unclear why activities for 2022 do not include the activities not carried out in 2021.

Economic integration reforms

Unfortunately, the data provided in the section containing the analysis of the main obstacles does not include 2020 statistics. The analysis would have benefited from updated statistics in terms of exports of goods and services in 2020, despite the impact of the COVID-19. Statistics for the trade of goods for the first three quarters of 2021 were already available in INSTAT, but the analysis only refers to 2019 trade statistics. This analysis would also have benefited if it covered the key sectors which drive exports, and the diversification in the exports portfolio and the reasons for such diversification. However, these elements are lacking, although the efforts the government has taken under CEFTA and the Regional Cooperation Council to implement the 2021-2024 Common Regional Market action plan are described in detail (Albania has notably fulfilled its commitments under CEFTA). However, the analysis fails to address the obstacles that challenge the sector

Reform Measure 12: Deepening economic integration

This measure is relevant to of Albania’s active involvement in the regional trade integration through CEFTA and it mentions most of the relevant information. Overall Albania has undertaken several steps to open the market and deepen its economic integration with the region. The follow-up to CEFTA undertakings such as the process of mutual recognition of the authorised economic operators are actions that will support Albania’s EU integration process.

However, the activities described under the measure are not well defined. They seem to be repeated for the following 3 years, which could make the monitoring of their implementation a significant challenge. Furthermore, the regional action plan for establishing the common regional market has already been adopted and is in force. However, it is expected to be an

activity that is repeated over the next three years; repetition of activities seems redundant. The expected follow-up activities related to the implementation of the action plan of the National Committee for Trade Policy and Facilitation are useful. However, more details are needed in terms of concrete actions, as it is not clear what part of the action plan will be implemented in 2022 and what components will be introduced during the following 2 years. There is also an element of duplication, as the drafting of the export strategy also appears under measure 8: 'Support for MSMEs'. Furthermore, on the results indicators, two out of the three intermediate and final targets are the same. It is unclear why this would be the case. There is also no time frame for achieving the intermediate and final targets, which could make them very difficult if not impossible to measure in a coherent way.

Education and skills

Skills, vocational education and training, higher education and reform measure 17 are analysed above in Section 4, under key challenge #1.

Albania's budget allocation to education is relatively low at 3.6% of GDP in 2022, which is an increase compared to 2020 (2.4% of GDP) and 2019 (3.3% of GDP), but it remains 1.4 pps. below the EU-27 average for 2020. After continuous improvements in previous PISA rounds, the results for 2018 are mixed: results improved for mathematics, plateaued for reading and deteriorated for sciences. Overall, Albania ranked 55th out of 77 countries. Girls and socio-economically advantaged students perform better than boys and disadvantaged students pointing to equity issues (PISA 2018). The enrolment rate of children from more vulnerable families in early childhood education is significantly lower (by more than 20 pps.) than the enrolment rate of children whose families are wealthier or whose parents hold a university degree (INSTAT 2018). Drop-out rates tend to be higher among pupils from the Roma/Egyptian communities, and several measures are in place to promote education. These include financial support, exemption from or reduction of tuition fees, and special quotas for admission to higher education. The share of early school leavers continues to fall (15.6% in 2020), but remains the second highest among candidate countries and potential candidates.

Reform measure 18: "Inclusiveness and equality in education"

This measure is rolled over from the previous ERP. It aims to strengthen inclusiveness and equality in education, with special emphasis on the participation of children from vulnerable groups, including children from the Roma and Egyptian minorities and children with disabilities. The number of children benefitting from free textbooks has increased in recent years. Currently all children in grades 1-9 as well as children of special categories in grades 10-12 benefit from free textbooks. The measure continues with the replacement of collective classes in rural areas with regular higher quality education in nearby schools and a 50% increase in reimbursement of transport costs for students. Nevertheless, careful choices need to be made as school is sometimes the only centre of community life in remote localities and increased quality could also be achieved through more use of digital education and online tools. Other positive activities include the standardisation of work of psycho-social services and training of their employees.

As regards inclusiveness, focus has been put on assistant teachers, and the number of children with special needs who attend regular schools has increased. Attention is being given to the training of assistant teachers. However, a more comprehensive approach combining physical environment, curriculum and assistive devices as well as further training for teachers (beyond assistant teachers) are required. The transformation of special schools/institutes into resource

centres supporting the education of children with disabilities and their social integration is still ongoing, but not at an adequate pace as regards the needs concerned. More human and financial resources are needed to transform these special schools / institutes into resource centres. While the share of children aged 3-6 attending kindergartens increased significantly until the school year 2017-2018, it has been stagnated since. Enrolment of children from vulnerable families also lags behind. The partnership between central and local governments is essential to ensure adequate early childhood education and care and the provision of services to the families that cannot afford the kindergarten costs. Increased attention also needs to be given to the early childhood care for children aged 0-2, which is a very underdeveloped sector in Albania. It is important that kindergarten teachers are fully trained and that school readiness for the grade 1 of compulsory education is ensured. This can only be achieved with stronger partnerships with municipalities and by increasing financial resources for the sector.

Reform Measure 19: “Development and empowerment of digital competency of teachers”

This measure involves integrating ICT into the digitalisation of education, a priority that is set out in the National Strategy on Education for 2021-2026. ICT will be introduced into the curricula of grade 1 in 2022, grade 2 in 2023 and grade 3 in 2024. The measure also includes introducing coding skills in grade 4 in 2022, grade 5 in 2023 and grade 6 in 2024. This comes after two years of the COVID-19 pandemic and there is an urge to ensure continuity in education but also to digitalise educational curricula overall. ICT has greatly influenced the way educational services are provided, as it has the potential to provide students with lifelong learning skills, ensure they fully participate in society and enable them to have success in their professional life. However, more research is needed to ensure its practical application in Albania.

The EU4School programme, implemented by UNDP, will assess the IT skills of teachers in 63 educational facilities, as a first step in assessing the needs gap. It is important to ensure an adequate assessment not only of competences but also of the infrastructure and services available in municipalities, such as electricity supply and internet connection. A stronger partnership is needed with families to ensure blended education is rolled out. The biggest challenge is for teachers. The measure includes specific teacher training, as they will deliver the ICT and coding classes. In addition, it includes the training of leaders of professional networks to promote the use of ICT in the teaching process. More emphasis and resources should be allocated to ICT training in a broader sense, and with a long-term approach.

Employment and the labour market

This area and the reform measure 1 are analysed above in Section 4, under key challenge #1.

Social dialogue

Bipartite social dialogue remains very weak in both the public and private sectors. The limited effectiveness of social dialogue mechanisms undermines the value of collective action and erodes public trust in the ability of social partners to influence policy and law making. As regards the national tripartite body (National Labour Council, NLC), a by-law was adopted in January 2020 clarifying the representativeness criteria for social partners. In 2021, the NLC secretariat was staffed with three members, one for each constituent party. However, the last meeting of the NLC was convened in February 2021. The mandate of the NLC expired in

April 2021 and its renewal is planned only for April 2022, resulting in a long absence of consultation. Tripartite consultations are being treated as a formality and documents are shared with social partners only shortly before the meetings. Moreover, the NLC's six technical sub-committees are not functional and so do not contribute to prepare the NLC's discussions and decisions. There is no earmarked budget line to support the proper functioning of NLC and its sub-committees. The Ministry of Finance and Economy and other relevant Ministries need to establish a practise of discussing and consulting with the NCL draft laws, by-laws or decisions directly or indirectly affecting employment and the world of work. Albania still plans to set up regional tripartite councils. In addition, the system for the amicable resolution of labour disputes needs further consolidation to enhance access to justice for the workers especially the vulnerable ones. On a positive note, the Albanian social partners advocated for the ratification by the Albanian Parliament (3 February 2022) of the ILO Convention 190 and committed to promoting safe and healthy working environments that are free from violence and harassment.

Social protection and inclusion

This area and the reform measure 4 are analysed above in Section 4, under key challenge #2.

Healthcare

This area and the reform measure 5 are analysed above in Section 4, under key challenge #2.

ANNEX B: OVERVIEW OF THE MAIN INDICATORS PER AREA/SECTOR OF THE ECONOMY

Area/Sector	2016	2017	2018	2019	2020	EU-27 Average (2020 or most recent year)
Energy						
Energy imports dependency (%)	20.2%	38.2%	21.1%	31.5	30.7%	57.5%
Energy intensity: Kilograms of oil equivalent (KGOE) per thousand euro	227.07 ^w	228.07 ^w	217.10 ^w	N/A	N/A	110.18 ^w
Share of renewable energy sources (RES) in final energy consumption (%)	36.94%	35.90%	36.84%	38.04%	45.02%	22.09%
Transport						
Railway Network Density (metres of line per km ² of land area)	11.06 ^w	11.62 ^w	11.62 ^w	5.88 ^w	7.79 ^w	49.0 ⁽²⁰¹⁸⁾
Motorisation rate (Passenger cars per 1000 inhabitants)	151.1 ^w	146.8 ^w	159.9 ^w	174.1 ^w	191.3 ^w	519 ⁽²⁰¹⁸⁾
Agriculture						
Share of gross value added (agriculture, forestry and fishing)	22.6%	21.8%	21.1%	21.0%	21.8%	1.8%
Share of employment (agriculture, forestry and fishing)	40.2% ^w	38.2% ^w	37.4% ^w	36.4% ^w	N/A	4.3%
Utilised agricultural area (% of total land area)	41.1 ^w	40.8 ^w	40.8 ^w	N/A		40.6%
Industry (except construction)						
Share of gross value added	14.0%	12.8%	14.1%	13.8%	12.5%	19.5%
Contribution to employment (% of total employment)	12.8% ^w	12.5% ^w	12.7% ^w	13.1% ^w	N/A	18.2%
Services						
Share of gross value added	53.2%	54.9%	54.5%	55.4%	55.3%	73.1%
Contribution to employment (% of total employment)	40.5% ^w	42.4% ^w	42.9% ^w	43.5% ^w	N/A	71.0%
Business environment						
Rank in Global Competitiveness Index (Source: World Economic Forum)	93	80	76	81	N/A	N/A
Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	Up to 28.3%	N/A	N/A	N/A	N/A	N/A

Research, development and innovation						
R&D intensity of GDP (R&D expenditure as % of GDP)	N/A	N/A	N/A	N/A	N/A	2,32%
R&D expenditure – EUR per inhabitant	N/A	N/A	N/A	N/A	N/A	EUR 694.60
Digital economy						
Percentage of households who have internet access at home	N/A	N/A	84%	85%	N/A	91%
Share of total population using internet in the 3 months prior to the survey [NB: population 16-74]	N/A	N/A	62.6% ^w	68.6% ^w	N/A	88%
Trade						
Export of goods and services (as % of GDP)	29.0%	31.6%	31.6%	31.3%	23.1%	46.7%
Import of goods and services (as % of GDP)	45.8%	46.6%	45.3%	45.0%	37.9%	42.9%
Trade balance (as % of GDP)	22.4%-	-22.7%	-20.2%	-20.7%	-20.4%	N/A
Education and Skills						
Early leavers from education and training (% of population aged 18-24)	19.6% ^w	19.6% ^w	17.4% ^w	16.3% ^w	15.6% ^w	9.9%
Young people not in employment, in education and training (NEET) (% of population aged 15-29)	30.0% ^w	29.7% ^w	28.6% ^w	26.6% ^w	27.9% ^w	13.7%
Children aged less than 3 years in formal child care (% of under 3-years-olds)	N/A	N/A	N/A	N/A	N/A	35.3% ⁽²⁰¹⁹⁾
Individuals who have basic or above basic overall digital skills (% of population 16-74)	N/A	N/A	N/A	21%	xx	56% ⁽²⁰¹⁹⁾
Employment and labour market						
Employment rate (% of population aged 20-64)	62.1% ^w	63.9% ^w	65.6% ^w	67.1% ^w	66.3% ^w	71.7%
Unemployment rate (% of labour force aged 15-74)	15.2% ^w	13.7% ^w	12.3% ^w	11.5% ^w	11.8% ^w	7.2%

Long term unemployment rate (% of labour force aged 15-74)	10.1% ^w	8.9% ^w	8.3% ^w	7.3% ^w	7.0% ^w	2.5%
Gender employment gap (Percentage point difference between the employment rates of men and women aged 20-64)	14.4 pps. ^w	16.5 pps. ^w	16.5 pps. ^w	15.0 pps. ^w	15.2 pps. ^w	11.0 pps.
Disability employment gap (Percentage points difference in employment rates between people with and without a disability)	N/A	18.1 pps.	16.9 pps.	18.7 pps.	13.3 pps.	24.5 pps.
Real gross disposable income of households (Per capita increase, Index = 2008)	N/A	N/A	N/A	N/A	N/A	107.23
Social protection system						
At-risk-of-poverty or social exclusion rate (AROPE) (% of population)	N/A	58.5%	53.9%	50.8%	46.2%	21.9%
At-risk-of-poverty or social exclusion rate of children (% of population 0-17)	N/A	62.0%	57.7%	53.9%	51.0%	24.2%
Impact of social transfers (other than pensions) on poverty reduction	N/A	12.55%	11.03%	11.88%	12.10% ^w	32.68%
Income inequality - quintile share ratio (S80/S20) (Comparison ratio of total income received by the 20% of the population with the highest income to that received by the 20% with the lowest income)	N/A	7.47	6.98	6.38	5.86	5.24
Housing cost overburden (% of population)	N/A	9.2%	6.0%	5.5%	3.8%	9.9%

Healthcare						
Self-reported unmet need for medical care (of people over 16)	N/A	13.1%	14.8%	14.6%	10.6%	1.8%
Out-of-pocket expenditure on healthcare (% of total health expenditure)	41.77% ^z	44.45% ^z	44.58% ^z	N/A	N/A	15.57% ⁽²⁰¹⁸⁾

w: data supplied by and under the responsibility of the national statistical authority and published on an "as is" basis and without any assurance as regards their quality and adherence to EU statistical methodology'

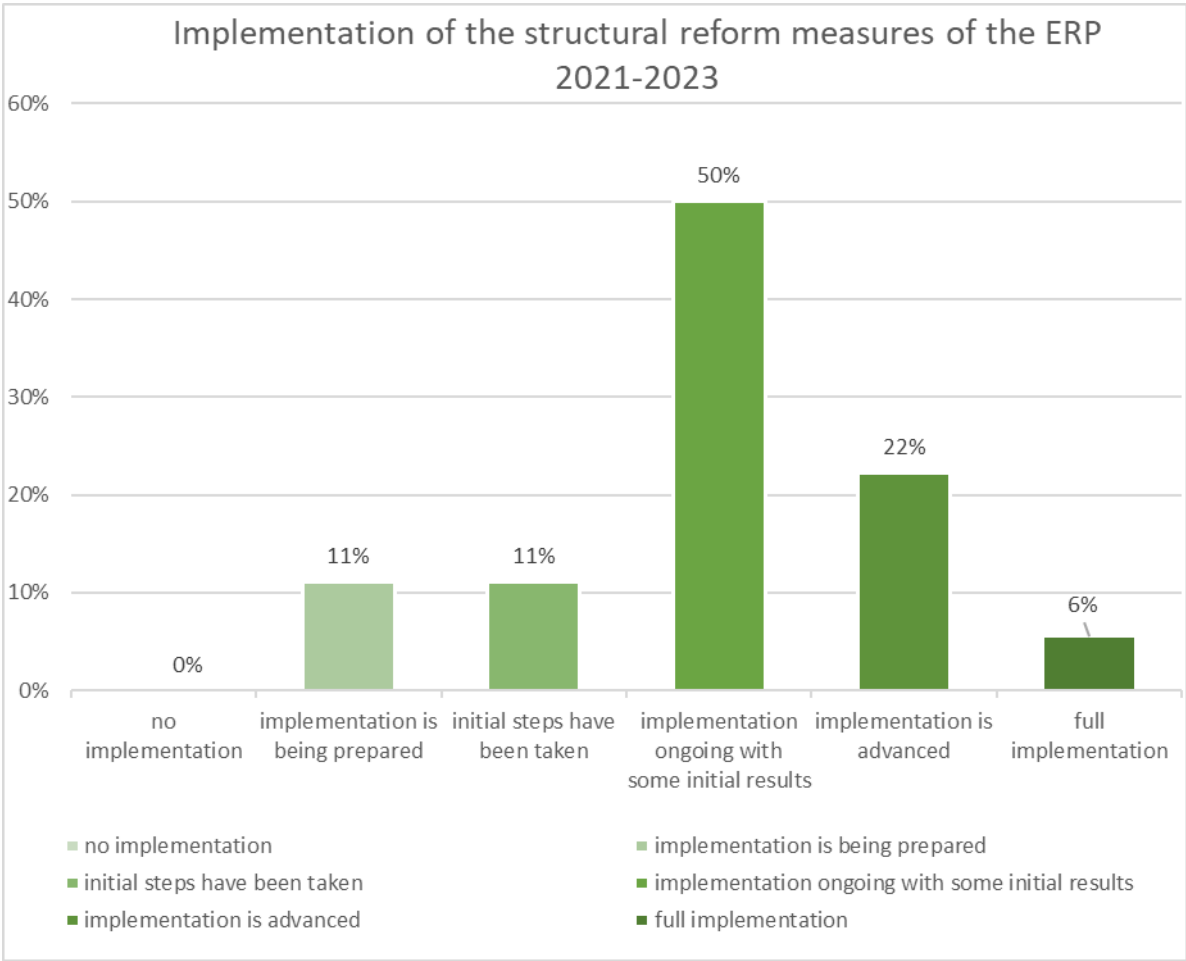
z: data from the World Health Organization

Source of data in Annex B: EUROSTAT, unless otherwise indicated

ANNEX C: PROGRESS WITH STRUCTURAL REFORM MEASURES FROM THE ERP FOR 2021-2023

While tackling the immediate impact of COVID-19 pandemic remained a clear priority in 2021, progress was made in implementing the measures from last year’s ERP (average score: 3.4 out of 5). Activity reports provide a fairly accurate description of the level of implementation of the measures that were reported on. However, five measures were not reported on. These were measures on i) areas of wastewater, ii) retail payments, iii) the quality and coverage of VET, iv) on cross border movement, and v) on access to healthcare respectively. In addition, a 2022 measure on economic integration was reported on, which cannot be taken into account. The Commission therefore had to independently evaluate the extent to which these five measures were implemented in the reporting period. . The scoring was slightly imprecise for the measures related to addressing the informal economy, diversifying energy resources, and the employability of the most vulnerable unemployed jobseekers. Some of the activities related to broadband and inclusive education were not reported on, so also had to be estimated.

Table 11: Reporting on the implementation of the structural reform measures of the 2021-2023 ERP’s structural reform measures



ANNEX D: COMPLIANCE WITH PROGRAMME REQUIREMENTS

The ERP process is coordinated by the Ministry of Finance and Economy. The Minister is the national coordinator, as defined by order no.107 of the Prime Minister of Albania, dated 6 August 2019. This order sets out the ERP's coordination structure as well as the establishment of the inter-ministerial group and the inter-ministerial technical secretariat. An inter-ministerial working group for the preparation of the ERP is in charge and the ERP focal points are appointed in each line ministry.

Consultation with the parliament or regional and local authorities did not happen, and there were no proactive outreach actions to seek the opinions and feedback from different stakeholders. According to the ERP technical secretariat at the Ministry of Finance and Economy, the ERP document was uploaded onto the government's platform for consultation on 22 December 2021, but no comments were provided. This means that no pro-active public consultation took place. In previous years, e-mail notifications were sent to different stakeholders to get their opinion and written comments on the document. However, for the 2022-2024 ERP, the authorities failed to complete a successful consultation process. The ERP coordination structure should examine what happened and revise the mechanism for consulting with stakeholders to avoid a passive consultation process.

Macroeconomic framework

The programme is in line with the medium-term budgetary framework and the Budget Law of Albania. It was submitted in time on 1 February 2022. It describes the past economic developments based on the available data and was published on the Ministry of Finance and Economy's website. Projections for 2022 and beyond are only provided in the form of data without explanation. The basis for the projections on export developments and foreign direct investment are not mentioned. The framework's horizon extends to 2026 but data on long-term sustainability (demographic developments, pensions, health expenditure) and on contingent liabilities/use of sovereign guarantees and discretionary measures were not provided. Information on the level of implementation the policy guidance 2 and 3 was implemented is incomplete. The ERP does not provide an analysis of labour productivity, skills shortages, migration, brain drain or the investment environment.

Fiscal framework

The ERP does not make clear a link between the analysis of the challenges the economy faces, the proposed reforms, and the corresponding budget allocations and lacks details on the expenditure plans, in particular on capital expenditure. It remains unclear if policies are sufficiently financed, because budget priorities in the ERP are not accompanied by the corresponding budget allocation and they are also not linked to the structural reform part. It is difficult to link policies mentioned in the ERP with the macro-fiscal or budget tables or to make comparisons in time, because the budget headings are aggregating many expenditure types while at the same time new headings for small expenditure items are introduced, which change every year. The ERP document could not take into account the full year's budget outturn for 2021, once the outturn data was available, the fiscal deficit of 2021 changed significantly within a few weeks after the submission of the ERP. One month after the submission of the ERP 2022, the 2021 outturn data changed the public debt ratio (similar to last year) so much (2 pps. of GDP) that the ERP plan for 2022 would actually result in an increasing instead of a decreasing public debt ratio. There is only limited information on the contributions to and spending by the social insurance schemes. Information on arrears, local-

government revenues and expenditure is missing. Fiscal data do not yet meet ESA 2010 requirements, in particular not on: the valuation of foreign debt, the consolidation of financial and non-financial transactions, the recording of arrears, of PPPs and of capital transfers and loans within the public sector and on functional government expenditure (COFOG). With the support of Eurostat, the statistical office is striving to align its fiscal statistics with EU requirements. Albania regularly sends EDP notifications to Eurostat on a best-effort basis and strives to improve them. It has not yet completed the move from cash-based to accrual accounting, and government finance statistics are not yet aligned with international standards.

The structural reform priorities section mostly follows the guidance note. In terms of the *reporting of the implementation of the policy guidance and the structural reform measures from the 2021-2023 ERP sufficient and up-to-date*, this is mostly accurate, with some exceptions. There are 19 reforms in the ERP 2022-2024, i.e. within the limit of max 20 reforms. The page limit is not respected - the structural reform measures contain more than 68 pages (i.e. 28 pages more than max 40 pages), without taking the annexes into consideration. As is described in each measure, in majority of cases the activities are clearly defined along the three-year period of implementation.

With regards to tables 9-12: Table 10.a (costing of structural reform measures) 50% were not completed. In some cases, clearly high-cost measures are paradoxically indicated a cost zero - such as for the reform 18 - increasing access to healthcare services. On Table 10.b – Financing of structural reform measures - 55% not completed. On Table 11 32% of the structural reform measures of ERP 2020-2022 are not reported upon. These reform measures are related to: i) *Defragmentation and consolidation of agricultural land*; ii) *Reform on the Water and Waste Water Sector*, iii) *Improve institutional capacity of the research and innovation system*; iv) *Finalisation of the pre-university curricular reform, training and hiring of teachers*; v) *Inclusive education*; vi) *Modernisation of the early childhood education system financing*.

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