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ECONOMIC REFORM PROGRAMME

OF

ALBANIA
(2020-2022)

COMMISSION ASSESSMENT

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The Economic Reform Programmes (ERP) were submitted around end-January 2020 and the present Commission assessment was finalised shortly thereafter in February 2020, supported by a fact-finding mission in mid-February.

The Covid-19-related economic crisis has in the meantime rendered the macro-fiscal scenarios presented in the ERP and in the Commission assessment largely obsolete. The Commission will publish its updated macroeconomic and fiscal projections for candidate countries, reflecting the expected impact of the Covid-19 crisis, in its spring economic forecast in early May 2020.

While the short-term macro-fiscal outlook has profoundly changed, the present Commission assessment also identifies structural reform challenges and priorities, including in the area of fiscal governance, which remain largely valid. Addressing these structural issues will be essential to ensure a sustained economic recovery after the crisis. The Joint Conclusions to be adopted at the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey will accordingly focus this year on the short-term priorities to mitigate the socio-economic consequences of the Covid-19 crisis and on the medium-term priorities to strengthen the foundations of a sustained recovery thereafter. While the Commission assessment does not address weaknesses in the public health system and issues in the social protection system are assessed only as far as they are linked to the key structural challenges, these two areas will feature more prominently among the issues identified in the policy guidance.

Contents

1. EXECUTIVE SUMMARY

Albania's economic reform programme (ERP) projects economic growth to rebound to 4% in 2020-2022, driven by a strong recovery in exports and investment. In 2020, an exceptionally high level of public investment to fund post-earthquake reconstruction is expected to boost growth to 4.1%. From 2021 on, the ERP expects private consumption to once again be the main driver of growth. The ERP assumes exports to make a strong recovery following gains in competitiveness. Private investment is expected to make an increasing contribution to growth after 2020, due to emerging capacity constraints and favourable financing conditions. The current account deficit is expected to narrow, fully financed by stable inflows of foreign direct investment (FDI). Forecasts for GDP and exports are rather optimistic given the expected economic slowdown of Albania's main trading partners and given international forecasts.

Expenditure related to the earthquake is set to increase the fiscal deficit compared to earlier plans. Nonetheless, Albania expects to continue reducing its public debt, albeit at a slower pace than previously expected. The fiscal deficit is planned to increase to 2.2% in 2020 but then to fall over the next two years, signalling that the government intends to return swiftly to its plan for fiscal consolidation. This is confirmed by the government's plan to continue reducing the public-debt ratio and to keep the primary balance positive over the ERP timeframe. Although Albania will not reach its aim of lowering the debt ratio to below 60% of GDP by 2021, the substantial international grants pledged for reconstruction should help contain the fiscal deficit and avoid increasing public debt.
The main challenges Albania faces are as follows**:**

- **Although the increase in the fiscal deficit is adequate in view of the reconstruction needs, there is a need to reduce the still high public debt and create fiscal buffers.** Temporarily slowing the pace of debt reduction is reasonable to cater for the reconstruction needs after the earthquake, but the disaster also underlines the importance of creating fiscal buffers in due time. Public-debt reduction should therefore continue, with the aim of gradually increasing the positive primary balance based on a sustained increase in tax revenue by combating tax evasion and abolishing tax exemptions. In addition, VAT refunds should be settled within the legal deadline to give a reliable net tax revenue and to support tax morale and business cash flow. Albania needs to increase its institutional capacity to monitor and contain fiscal risks stemming from PPPs, concessions and state-owned enterprises so that such contingent liabilities do not endanger the planned fiscal consolidation.

- **The government needs to address the high stock of public-sector payment arrears and to improve its public investment management.** Recurring arrears undermine the business climate, so Albania should seek to prevent any further increase in payment arrears. Close monitoring would be warranted, by publishing a breakdown of current and cleared arrears. The planned increase in public investment calls for Albania to improve the efficiency and quality of public investment management, starting by subjecting all investment proposals to the same approval process.

- **Albania's competitiveness remains affected by inefficiencies in the energy sector, including insufficient security of supply.** Its dependence on hydropower for electricity generation (98%) makes the economy vulnerable to climate change and hydrological conditions. In addition, Albania is a net importer of electricity, which is a contributing factor to its considerable trade imbalance. Investing in energy efficiency in industry could help reduce these vulnerabilities. Albania has adopted legislation on the liberalisation and unbundling of the gas and electricity markets in line with the EU's third energy package, and implementation is progressing.

- **Albania's business environment is hampered by structural weaknesses.** Private-sector development remains below its potential, as action to improve the business environment lacks effective policy instruments and a more strategic approach. The lack of business know-how, low financial literacy and high degree of informality hamper access to finance for the private sector, consisting mainly of micro and small businesses. The other obstacles to doing business that Albanian firms identified are an inadequately educated work force, transport, and corruption.

- **The skills level of the population continues to be low and not well aligned to the labour market needs.** It still has a high share of the active population with only a low level of education. Younger generations show increasing levels of education, but upper-secondary and university graduates face difficulties in finding jobs, indicating issues with the quality and labour market relevance of education. With an ageing population, there is a growing need to increase labour market participation by upskilling. The scarcity of social care services is a major obstacle to social integration, including labour market activation and upskilling of vulnerable groups.

The policy guidance set out in the conclusions of the Economic and Financial Dialogue of May 2019 has been partially implemented. The public debt reduction was lower than planned due to lower GDP growth. Progress was limited on the development of a medium-term fiscal consolidation plan and of a mid-term revenue strategy, which was delayed due to the earthquake. The recording of arrears and of fiscal liabilities from PPPs improved. Public investment management had limited progress and public expenditure on education and research hardly increased. Some progress was noted on developing hedging instruments. The implementation of the NPL action plan progressed substantially, but measures to increase the use of local currency did not advance. There has been some progress in liberalisation of the energy market, broadening the energy mix and the establishment of the Power Exchange, but the latter is still not operational. The preparation to implement the legislation on energy efficiency to stimulate private investment in the sector started. The Tourism Strategy was adopted and the capacity for delivering support services to SMEs increased. Albania made significant progress in the legal and institutional framework governing employment and skills policy. This needs to be further consolidated by allocation of sufficient human resources. Albania plans to increase the capacity of municipalities to assess social care needs and prepare social care plans. While the number of teachers in pre-school education was increased, no specific action was taken to increase the enrolment of children from vulnerable backgrounds.

The ERP sets out reform plans that are largely in line with the priorities identified by the Commission. The programme's macro-fiscal framework is slightly optimistic. The temporary widening of the fiscal deficit accompanied by the commitment to continue public debt reduction is adequate in view of the needs following the earthquake. The approach to debt reduction could be more strategic and better anchored by an operational fiscal rule. The diagnostic on structural obstacles focuses on access to finance, agricultural land ownership, business regulation, innovation support, digitalisation of the economy and trade facilitation, but omits the issues of production diversification and property rights. The measure on pre-university curricular reform does not allocate sufficient resources for teacher training. The employment and vocational education reform measures are relevant, but more resources could be provided to active labour market policies. The measure on social protection addresses challenges that are relevant, but it lacks quantitative targets and a budget allocated to carry out key activities.

2. ECONOMIC OUTLOOK AND RISKS

GDP growth slowed to 2.9% in the first nine months of 2019, mainly due to a fall in hydroelectric production caused by low rainfall. Following the strong earthquake of 26 November 2019, the ERP projects overall real growth to fall to 2.7% for the whole year of 2019. This is a stark adjustment from the original forecast of 4.3% growth in last year's ERP, with the electricity sector subtracting around 1 percentage point from growth. Despite the low GDP growth, rising real wages, rising employment and favourable household lending conditions stimulated private consumption, which remained the main growth driver, while government consumption increased only slightly. Investment stagnated and net exports were a drag on growth.

The ERP forecasts that GDP will rebound to around 4% growth per year in 2020-2022. In 2020, growth is expected to recover to 4.1%, buoyed by a strong increase in investment of 8.4%, driven by a surge in public investment, mainly into post-earthquake reconstruction. In the medium-term, investment growth is set to wane. Investment is expected to be driven increasingly by rising private investment, on the back of emerging capacity constraints and favourable financing conditions. Private consumption is expected to wane temporarily but overall direct negative effects from the earthquake are assumed to be mainly limited to 2020. Private consumption is expected to become once again the main driver of growth in 2021-2022, based on rebounding consumer confidence, rising employment and wages, and favourable lending conditions for households. Increasing competitiveness is expected to boost exports by an average 7.2% per year, resulting in a positive growth contribution of net exports in 2020-22. Despite the expected rebound in growth, GDP projections for 2020-21 have been revised downwards since the previous ERP (by 0.3 percentage points and 0.4 percentage points respectively). The output gap is expected to turn positive only in 2021, two years later than initially estimated. The determination of the cyclical position is heavily influenced methodologically by the last value of the time series (end-point sensitivity) and by fluctuations in hydroelectric production.

Services are expected to continue providing a strong contribution to production value and labour demand. On the production side, the ERP projects services to remain the main driver of growth and labour demand. In addition, it forecasts a recovery of the mining sector and stable growth in agriculture and industry. Although Albania forecasts its population to continue falling by 0.2% annually, the unemployment rate (15-64) is projected to fall gradually to 9.8% by the end of the programme period. Employment is expected to increase the most in 2020 at 3.3%, on account of expected high investment, and then by a more gradual 1.8% and 1% in 2021 and 2022 respectively. The forecast of slower employment growth at the time of solid GDP growth implies an expected increase in labour productivity.

The forecasts both of GDP and export growth appear optimistic in light of the earthquake and the economic slowdown in Albania's main trading partners. Although the base effects from low electricity production in 2019 could justify an acceleration of exports in 2020 (from 3.9% to 6.7%), the ERP expects export growth to remain more than twice as high as it was over the last three years, driven by an improving competitiveness (for which there is no explanation). A less benign than expected external environment could affect not only exports, but also private-sector investment, which the ERP expects to pick up to over 5% in 2021-22. The impact of the earthquake on private consumption (also through the wealth effect) could also be higher and longer lasting than expected by the programme.

Albania - Comparison of macroeconomic developments and forecasts

	2018		2019		2020		2021		2022	
	COM	ERP	COM	ERP	COM	ERP	COM	ERP	COM	ERP
Real GDP (% change)	4.1	**4.1**	3.1	**2.7**	3.7	**4.1**	3.6	**4.0**	n.a.	**4.0**
Contributions:										
- Final domestic demand	3.0	**3.1**	3.4	**2.9**	3.3	**4.0**	3.3	**3.4**	n.a.	**3.6**
- Change in inventories	1.9	**1.9**	0.2	**:**	0.2	**:**	0.2	**:**	n.a.	**:**
- External balance of goods and services	-0.8	**-0.9**	-0.5	**-0.2**	0.2	**0.1**	0.1	**0.6**	n.a.	**0.4**
Employment (% change)	2.1	**2.1**	2.8	**2.3**	2.1	**3.3**	1.9	**1.8**	n.a.	**1.0**
Unemployment rate (%)	12.8	**12.8**	11.9	**12.2**	11.0	**10.8**	10.3	**9.9**	n.a.	**9.4**
GDP deflator (% change)	1.9	**0.9**	1.8	**0.8**	2.2	**1.1**	2.2	**1.7**	n.a.	**1.8**
CPI inflation (%)	2.0	**2.0**	1.6	**1.4**	2.1	**2.1**	2.3	**2.4**	n.a.	**2.8**
Current account balance (% of GDP)	-6.8	**-6.8**	-6.5	**-8.0**	-5.6	**-7.2**	-5.1	**-6.7**	n.a.	**-6.3**
General government balance (% of GDP)	-1.6	**-1.6**	-1.7	**-1.9**	-1.3	**-2.2**	-1.1	**-2.0**	n.a.	**-1.7**
Government gross debt (% of GDP)	67.3	**67.9**	66.0	**66.2**	64.1	**65.4**	62.0	**62.3**	n.a.	**62.0**

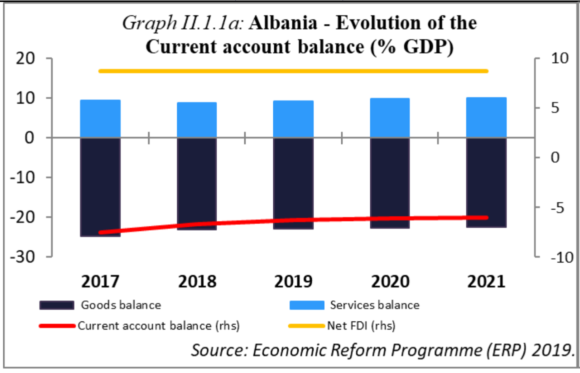
Sources: Economic Reform Programme (ERP) 2020, Commission Autumn 2019 forecast (COM).

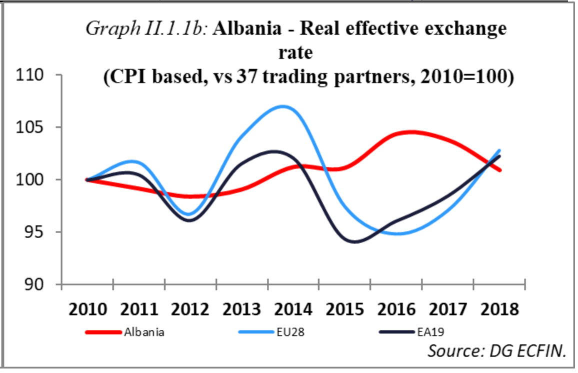
The ERP does not expect inflation to reach the inflation target of 3% by 2022, despite the expected positive output gap. Although the central bank expected that the dissipating appreciation of the exchange rate, coupled with continued monetary accommodation and a record-low policy rate of 1% would push inflation up in 2019, the annual average increase of the consumer price index actually fell to 1.5%, even further below the central bank's 3% target. Rising food prices contributed to the inflation whereas the increase in real wages did not generate sufficient inflationary pressure. The ERP expects the inflation rate to pick up gradually to 2.8% in 2022, as higher domestic demand generates upward pressure on prices.

The current account deficit is expected to narrow and to be fully financed by foreign direct investment (FDI) inflows, though this is subject to downside risks. Shrinking electricity exports in the first half of 2019, have widened the (traditionally high) merchandise trade deficit and thus the current account deficit. Net FDI inflows are estimated to have fallen slightly due to some large energy projects unwinding, to reach just 8% of GDP in 2019. Nonetheless, they fully financed the current account deficit, estimated at 6.8% of GDP. For the 2020-2022 period, the ERP expects an increasing trade deficit and services balance surplus. The level of current transfers, which consist to a large extent of remittances from the Albanian diaspora, is expected to remain stable, although their share of GDP is set to continue to fall. Overall, the current account deficit is expected to start falling again over the programme period to reach 6.3% of GDP in 2022. FDI inflows are projected to rise by about 9% annually, and to fully finance the current account deficit. These projections are subject to downside risks due to: (i) potentially lower export and remittances growth in the event of a slowdown in Albania's main trading partners, in particular Italy; (ii) uncertainty over the share of imports for the planned public investment and the envisaged foreign-aid projects; post-earthquake reconstruction and (iii) the volatility of hydropower-based electricity production. These risks could widen the current account deficit and could increase Albania's external vulnerabilities if lower FDI inflows provide less financing coverage.

Graph 2: **External competitiveness and the current account**

Current account balance (% of GDP)	**Real effective exchange rate (CPI based, total economy)**





Albania's external vulnerabilities are mitigated by improved external debt metrics and solid forex reserves. Gross external debt continued to fall, reaching 63.5% of GDP at the end of September 2019, down from 64.4% at the end of 2018. About 80% of the external debt stock is long-term and more than half of it is owed by the government. Although the external debt is sizeable, its composition means that it is not a cause for immediate concern. Foreign-exchange reserves have consistently increased over the last years and totalled €3.3 billion at the end of 2019, covering over six months of imports of goods and services and providing an adequate safeguard against adverse shocks. For the coming three years, import coverage is expected to fall slightly but to remain well above the central bank's adequacy criteria.

Credit growth and bank balance sheets are expected to continue improving, but obstacles to banks' access to collateral and the dominance of foreign currencies still pose risks. Banks are well capitalised, highly liquid, and predominantly funded by deposits. Credit growth picked up strongly to 7% in 2019 and is projected to remain strong, supported by the gradual fall in interest rates and rising demand. In addition, the increased share of bank capital that is owned domestically, and the market entry of regional banks seem to have stimulated bank lending. The share of non-performing loans (NPLs) fell below 9% in early 2020, supported by mandatory write-offs, but also by sales and out-of-court resolution of loans. However, controversial legislation and regulation of private bailiff services and the as yet incomplete justice reform still pose significant obstacles to accessing the collateral. Following action taken by the central bank to address the dominance of the euro in domestic transactions, the share of foreign-exchange loans out of total loans fell from 60% in 2015 to 50.1% in 2019. Foreign-exchange deposits, which to a certain extent reflect the relatively high inflow of remittances, increased to 54.6% of total deposits. About 25% of loans and deposits in foreign currency is exposed to exchange rate risks, which the central bank plans to address by developing more hedging instruments. In addition, the banking sector holds over 20% of its assets in government securities, exposing it to sovereign risks.

The ERP anticipates that payment services will be modernised, which should increase the number of adults and SMEs holding bank accounts, and reduce the size of the informal economy. The recent credit growth increased the stock of private-sector loans to about 36% of GDP. This is still low, due to low levels of financial literacy and financial inclusion, with only 40% of adults and about 75% of SMEs holding bank accounts. The rate of physical-cash use is high in Albania. The central bank has drawn up a plan to boost financial inclusion, which will also help to reduce cash use, remittance fees, illicit financial flows and the informal economy. In addition, Albania is preparing a credit bureau, which could improve access to finance. A stronger development of the still very small non-banking financial sector could also support financial inclusion and access to finance for SMEs.

Albania - Financial sector indicators

	2015	2016	2017	2018	2019
Total assets of the banking system (EUR million)	9435	10248	10768	11 398	12 380
Foreign ownership of banking system (%)*	84.1	82.6	81.4	80.8	78.4
Credit growth (%)	-2.4	0.1	0.6	-3.2	7.1
Deposit growth	0.8	2.9	-1.2	-1.3	3.9
Loan-to-deposit ratio	55.5	54.0	54.9	53.9	55.6
Financial soundness indicators					
- non-performing loans	18.2	18.3	13.2	11.1	8.4
- net capital to risk-weighted assets	16.0	15.7	16.6	18.2	18.3
- liquid assets to total assets	10.9	12.8	13.0	14.8	15.1
- return on equity	13.2	7.1	15.7	13.0	13.5
- forex loans to total loans (%)	60.0	57.8	55.7	55.1	50.1

* of total sector assets

Sources: Economic Reform Programme (ERP) 2020, IMF, Bank of Albania.

3. Public finance

Despite a shortfall in revenue, the 2019 fiscal deficit remained below the original target of 1.9% of GDP, mainly due to lower-than-projected capital spending. Revenue reached 27.3% of GDP, 1.2 percentage points lower than planned, partly due to a shortfall in net VAT receipts as Albania has stepped up the reimbursement of VAT refund arrears. However, it mainly reflects lower than planned gross VAT collection, as new exemptions were brought in. Nonetheless, lower VAT receipts were more than offset by significant underspending of the capital budget, especially the foreign-financed part, which brought public investment to only 4.3% of GDP instead of the targeted 5.1%. Albania also made savings on social transfers and interest costs. Overall, expenditure fell to 29% of GDP in 2019 and the budget deficit of 1.8% of GDP was slightly lower than planned, despite a downward revision of estimated GDP. The primary surplus amounted to 0.3% of GDP. At the same time, payment arrears continued to accumulate, which signals that they are caused by issues with budgeting, contracting and cash flow management rather than by shortages of funds.

Following the earthquake, Albania has revised its ERP fiscal deficit targets upwards, but it expects the public-debt ratio to continue to fall. Compared to the previous ERP, it revised the fiscal deficit from 1.6% of GDP to 2.2% in 2020 and from 1.3% of GDP to 2.0% in 2021 to accommodate the impact of post-earthquake reconstruction. The expected fall in the cash deficit right after 2020, when most of the additional burden will incur, and the expected increase in the primary surplus in 2021-22, signal the government's commitment to return swiftly to its plans for fiscal consolidation. This is also reflected in the programme's estimates of the fiscal stance, which will become restrictive in 2021 and 2022 as the output gap turns positive. The main burden of the narrowing fiscal deficit after 2020 will fall on primary expenditure, despite the spending ratio being already rather low. Albania plans to step up capital investment in 2020 and to then decrease it as a percentage of GDP. Investment in reconstruction is due to be financed via a reconstruction fund, which is on the one side integrated into the budget for capital expenditure and on the other side executed separately. This is to increase transparency between the remaining originally planned investments financed under the original budget and the ALL 20 billion of investment for reconstruction purposes, for which additional funding is raised. On the revenue side, the 1.4 percentage point increase in 2020 reflects the expected mobilisation of grant funding and robust growth in tax revenue. The ERP plans to continue reducing the public-debt ratio, albeit at a slower pace than envisaged previously.

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

	2018	2019	2020	2021	2022	Change: 2019-22
Revenues	27.6	27.3	28.7	27.7	27.6	0.3
- Taxes and social security contributions	22.2	22.3	22.7	22.1	22.1	-0.2
- Other (residual)	5.3	5.1	6.0	5.6	5.5	0.4
Expenditure	29.2	29.0	30.9	29.6	29.3	0.3
- Primary expenditure*	27.0	27.0	28.6	27.2	26.9	-0.1
of which:						
Gross fixed capital formation	5.7	5.3	6.8	5.8	5.8	0.5
Consumption	9.4	9.5	9.5	9.4	9.2	-0.3
Transfers & subsidies	11.8	12.1	12.1	11.9	11.7	-0.4
Other (residual)	0.1	0.1	0.2	0.1	0.2	0.1
- Interest payments	2.2	2.1	2.3	2.5	2.5	0.4
Budget balance	-1.6	-1.8	-2.2	-2.0	-1.7	0.1
- Cyclically adjusted	-1.9	-1.7	-2.4	-2.1	-1.8	-0.1
Primary balance	0.6	0.3	0.1	0.5	0.8	0.5
- Cyclically adjusted	0.4	0.4	-0.1	0.4	0.7	0.3
Gross debt level	67.9	65.9	65.4	62.3	62.0	-3.9

* Excluding arrears clearance
Sources: Economic Reform Programme (ERP) 2020 and preliminary fiscal results 2019.

The government revised the 2020 budget to include substantial reconstruction expenditure, partly financed by international aid; a reasonable revision. Due to earthquake-related additional expenditure needs, the government raised spending to 30.9% of GDP in 2020 to include higher investment (up to 6.8% of GDP). The revised capital budget adds ALL 20 billion (1.1% of GDP) for reconstruction-related investment to the original capital budget plan. The planned borrowing increased by ALL 10 billion to almost ALL 40 billion and interest payments are expected to climb slightly to 2.3% of GDP in 2020. The budget also provides for the repayment of VAT refund arrears to some large taxpayers in scheduled instalments. The expectations for the significantly increasing revenue include additional grants estimated at 0.4% of GDP. Driven by economic growth, expected gains in revenue collection efficiency and increased formalisation of the economy, tax revenue (excluding social contributions) is forecast to increase by 7.9%. This includes a 9.9% growth in net VAT revenue, assuming early introduction of obligatory, electronic fiscal cash registers (‘fiscalisation’[1]), which in the meantime has been postponed to September 2020. In addition, revenue from social contributions is estimated to increase by 4.8% in step with rising employment. The ERP

[1] The planned introduction of ‘fiscal cash registers’ requires the use of approved fiscal cash registers or devices for all commercial transactions. For Albania, it is planned to use electronic recording and transmission of the registries. ‘Fiscalisation’ is a welcome alignment with EU standards, and expected to increase VAT collection.

does not include any major fiscal policy changes for 2020 although the budget for 2020 brought in tax reductions for the automotive sector and impacts the tax base for corporate and personal incomes as well as the calculation of national taxes and of penalties ('fiscal package 2020'). The ERP does not reflect the earthquake-related new tax exemptions on imports of construction-related material and equipment. Tax expenditure is not forecast.

Albania's budget for 2020

- ❖ Albania first submitted the draft budget for 2020 to parliament in October 2019, in line with legal requirements. After the earthquake on 26 November 2019, the Minister of Finance submitted a revised draft budget to accommodate extraordinary costs for reconstruction. Parliament adopted the revised budget on 5 December 2019.
- ❖ The revised budget targets a fiscal deficit of 2.2% of GDP instead of the initial plan of 1.6% and a positive primary balance of 0.1% of GDP instead of 0.7%. It adds 1.1% of GDP (ALL 20 billion) for the reconstruction budget to the originally planned public capital expenditure.
- ❖ The key measure is to set up a reconstruction fund, which will combine the additional budget funds with donor funds and domestic donations to implement reconstruction and aid projects: capital expenditure (+1.46% of GDP).
- ❖ In addition, the government is putting tax exemptions in place for donations and for VAT on imports of construction materials. The revised budget makes provision for social assistance to victims of the earthquake in the form of additional pension payments, scholarships, housing and funeral costs. The ERP does not detail the fiscal impact of these measures.
- ❖ The fiscal measures contained in the 2020 budget include a tax incentive for the automotive industry by lowering their corporate tax rate from 15% to 5% and a VAT exemption for new electric vehicles, but the ERP does not give an estimate of the impact.
- ❖ The budget also includes increased expenditure on grants to local governments (0.3% of GDP), as well as for health (0.15% of GDP) and education (0.19% of GDP).

The main challenge is that the planned increase of tax revenue and implementation of the budgeted capital expenditure both seem unrealistic, given the 2019 performance. The tax revenue projection in the ERP is likely to be overestimated, as it does not take into account the impact of the earthquake and the related tax exemptions of imports of reconstruction material and of international aid. The ERP mentions further risks stemming from a lower-than-expected GDP growth and a postponement of the rollout of electronic invoicing, which together could lower tax revenue growth from the planned 7.9% to 5.8%. Capital expenditure by central government is expected to surge by 35% in nominal terms compared to 2019 spending. To achieve the targeted substantial improvements, the institutional and staffing capacity of revenue administration and public investment management would have to increase significantly.

By 2022, revenue and expenditure ratios are expected to return to their 2018 levels. On the revenue side, grant revenue in 2022 is projected to be 0.5 pps lower than it was in

2020, but in absolute terms, still twice as high as in 2018. Tax revenue is projected to stabilise at 25.6% of GDP[2]. The central government's capital expenditure is expected to return to its former level of 4.7% of GDP and current expenditure is planned to fall by 0.7 percentage points to 24.4% of GDP, mainly due to lower wages, social expenditure and grants to local governments (in terms of GDP). The ERP does not provide details on the forecast expenditure and revenue for 2021-2022. With the planned return to 2018 levels, medium-term expenditure and revenue ratios seem more realistic than plans for 2020. However, the plan to lower the current expenditure does not reflect the need to increase administrative capacity, which both government and the international community has identified as being crucial to implement the reform agenda. The planned increase in social contributions and fall in social expenditure are both based on rather optimistic growth expectations.

The government plans to reduce public debt at a slower pace than expected previously and to continue improving the structure of public debt. Supported by a lower than planned fiscal deficit, the public debt was lower than originally expected in 2019. However, because of the lower GDP, the debt-to-GDP ratio decreased only to 65.9%, 2 percentage points less than planned. Over the timeframe of the ERP, the government aims to continue reducing the public-debt ratio to 62% in 2022. This postpones the intermediate aim of reaching a debt ratio below 60% of GDP from 2021 to early 2023, outside the timeframe of this ERP. The overall debt structure continued to improve as the majority of debt was shifted to longer maturities. These reached a share of 65% of total debt (up from 53.9% in 2015), mainly consisting of maturities of between 5 and 10 years, while the share of domestic debt of maturities shorter than one year fell. Foreign debt is long term, mainly owed in euro largely at concessional terms. It accounts for a share of 46.3% of public debt. The aim of Albania's debt management is to continue extending the maturity of domestic debt and to limit the share of securities with variable interest rates to lower roll-over and interest rate risks. Albania took steps to further develop the primary and secondary market for government securities with a programme to establish a three-year bond benchmark. Most government debt is still held by the banking sector (62.2%) but the ownership structure has shifted towards other financial institutions and institutional investors. The Bank of Albania reduced the share of government debt it holds from 12.3% in 2013 to 8.1% in 2019. Domestic borrowing, mainly relying on the banking sector, will continue to provide about 80% of gross financing, while the aim is to keep the share of foreign currency debt below 55% of total debt to contain the exchange rate risk. Over the medium-term, interest rates for government securities in the domestic market are expected to remain at current levels of between 1.03% (6 months) and 5.49% (10 years).

[2] In contrast to the table above and due to differences in statistical classification, a share of the amount in the table classified as 'others' is actually tax revenue.

Albania - Composition of changes in the debt ratio (% of GDP)	2018	2019	2020	2021	2022
Gross debt ratio [1]	**67.9**	**65.9**	**65.4**	**62.3**	**62.0**
Change in the ratio	-2.2	-2.0	-0.5	-3.1	-0.3
Contributions [2]:					
1. Primary balance	**-0.6**	**-0.2**	**-0.1**	**-0.5**	**-0.8**
2. "Snowball" effect	**-1.1**	**-0.3**	**-1.0**	**-1.2**	**-1.0**
Of which:					
Interest expenditure	2.2	2.1	2.3	2.5	2.5
Growth effect	-2.8	-1.8	-2.6	-2.5	-2.4
Inflation effect	-0.6	-0.6	-0.7	-1.1	-1.1
3. Stock-flow adjustment	**-0.4**	**-1.6**	**0.6**	**-1.5**	**1.5**

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

Source: Economic Reform Programme (ERP) 2020, ECFIN calculations.

Debt dynamics

Debt reduction is expected to be driven by the favourable snowball effect despite a projected increase in interest expenditure. Achieving the projected growth rate would be key for this to happen. The improving primary balance is set to provide an increasing contribution to debt reduction over the timeframe of the programme. Fluctuations in stock flow adjustments reflect the issuance and use of Eurobonds.

These dynamics are based on optimistic growth expectations and assume a stable exchange rate. The pace of debt reduction may impact the interest rate of the 2020 Eurobond and lead to higher than expected interest payments. The debt dynamics could be improved by a higher share of grant financing for reconstruction, which would lower borrowing needs, and by increasing foreign financing at lower interest rates than those available on the domestic market.

Contingent liabilities from PPPs and state-owned enterprises remain high and could weigh on the debt ratio. The level of guaranteed debt is planned to increase over the medium-term from 2.5% of GDP in 2019 to 5-6% of GDP, in order to support development projects and manage the costs and risks of existing contingent liabilities. In 2019, domestic guarantees amounted to ALL 15.2 billion (0.9% of GDP) for the state-owned electricity supplier, pointing to fiscal risks associated with weak governance of state-owned enterprises in the energy sector. Improved monitoring and assessment of PPPs and concessions is documented in the fiscal risk statements accompanying the budgets. A first (preliminary) report on PPP and concession contracts reviewed the performance of the 10 largest PPPs, but more institutional capacity would be required to make a substantial risk assessment of all PPPs and concessions. The ERP reports that payments to 13 PPPs and concessions are expected to reach ALL 15 billion in 2021, or 3.3% of the expected tax revenue in 2020.

Sensitivity analysis

The sensitivity analysis of this year's ERP is a thorough revision of last year's overly optimistic projections, which assumed a baseline scenario close to this year's optimistic scenario. The ERP gives both an optimistic and pessimistic scenario for real GDP growth rates, which deviate from the baseline growth scenario by +0.5 percentage points and -1 percentage points respectively. The low-growth scenario assumes less tax elasticity than the baseline scenario to reflect a generally lower collection efficiency in years of low economic growth. Under the pessimistic scenario, the primary balance would turn negative in 2020 and only achieve a surplus in 2022, while under the baseline and the optimistic scenarios, the primary surplus keeps increasing beyond former surplus levels.

Under the pessimistic scenario, expenditure is expected to adjust through reduced domestically financed investment, with higher financing needs to be covered by domestic borrowing. Current expenditure is set to remain unchanged under all three scenarios. No scenario assumes changes in foreign financing. Albania does not plan to make prior use of contingencies but 0.3% of GDP from interest-rate contingencies could be used to absorb fiscal pressure if revenue drops below the baseline expectations.

Albania plans to continue bringing down its debt under each scenario with differing fiscal deficits reflecting the aim of a counter-cyclical fiscal policy. The fiscal deficit adjustment is expected to amount to half the deviation of total revenue from the baseline scenario. The highest fiscal deficit is 2.6% of GDP projected under the pessimistic scenario for 2020, the lowest for 2022 under the optimistic scenario, reaching 1.4%, though still above last year's projection for 2021. The intermediate debt target of 60% would not be reached by 2022 even under the optimistic scenario, in contrast to last year's ERP projections for 2021.

The updated public finance management reform strategy for 2019-2022 sharpens the focus on managing public investment, fiscal risks and mobilising domestic revenue, but low institutional capacity is the main risk to implementing the strategy. The revision of the strategy was based on the results of a mid-term review finalised in early 2019 and implementation is a key objective of the EU-financed budget support programme. The mid-term review of the PFM strategy identified disruptions caused by frequent reorganisation in the public sector as a key risk to implementing the reforms, in addition to understaffing and problems with staff retention in key ministries and in the revenue administration. Medium-term budgeting has improved but performance-based and gender-responsive budgeting still shows weaknesses and the medium-term budgetary frameworks are not effectively used as planning instruments. The continuing occurrence of arrears indicates problems with expenditure planning and checking payment commitments. The planned roll out of the Albanian financial management information system will help improve budget execution but the compliance issues identified by the supreme auditor should also be addressed. The updated PFM strategy took up a number of the IMF recommendations to improve public investment management, with the plan to integrate public investment planning into a single process and to align procurement with the body of EU law. Various tax exemptions weaken the transparency and efficiency of the tax system and lead to a loss of revenue, but work is ongoing to improve reporting and review performance in order to broaden the tax base.

The expenditure composition could be more clearly oriented to sustainable and inclusive growth. Overall, there is a bias in the budget towards investment in physical infrastructure, defence and public safety rather than investment in human capital. Expenditure on health, welfare and inclusion, education and research are not sufficient to implement the government's strategies or to address the recognised welfare needs, and the ERP expects spending to freeze for longer or even decrease in these key areas as a percentage of GDP. However, data on functional public expenditure (COFOG) are not fully reliable and local government expenditure plans in these areas do not seem fully integrated in general government budgeting. This may result in underestimations of budgeted spending, in particular on education, social services and investment. Increasing revenue mobilisation, which is currently very low even by regional standards, is key to securing more funding for these priority areas while continuing fiscal consolidation. Albania is currently preparing a revenue mobilisation strategy with the help of the IMF, which could help address issues of the informal economy and tax evasion.

Albania has complied with the fiscal rules but these lack operational debt targets and independent monitoring arrangements. It complied with the fiscal rules regarding debt reduction, current balance and budget payments to PPPs[3] in 2019 and plans to continue to do so in the medium-term plans. The fiscal rule prescribing an annual fall in the public-debt ratio until it falls below the ceiling of 45% of GDP is too weak to effectively guide fiscal policy and budgeting. The ERP announces work on making the fiscal rule more operational and on improving GDP and revenue forecasts with better models, adequate IT and implementation guidelines. In addition, the updated PFM strategy aims to gradually align fiscal data with ESA 2010 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, but it publishes the data in a timely manner. In particular, it gives only limited statistical information on the finances of state-owned businesses and PPPs.

4. KEY STRUCTURAL CHALLENGES AND REFORM PRIORITIES

Much of Albania's growth and export potential is linked to nature-based sectors such as coastal tourism, agriculture, hydropower and mining. At the same time, this dependence on natural resources, including volatile water resources, creates vulnerabilities, affecting agriculture, electricity and tourism and, therefore, the livelihoods of large parts of the population. Albania's private sector development remains below its potential, as efforts to improve the business environment lack effective policy instruments and a more strategic approach. Exports are concentrated in few low-value added products, due to the narrow industrial base.

The Commission has conducted an independent analysis of the Albanian economy to identify the key structural challenges to boost competitiveness and inclusive growth, drawing from Albania's ERP itself but also using other sources. This analysis of the economy shows that Albania experiences several structural weaknesses across many sectors. However, the main challenges in terms of boosting competitiveness and long-term and inclusive growth are (i) Improving the skills of the population to meet labour

[3] The fiscal rules in Albania set a debt-to GDP ceiling of 45% with the obligation to decrease the ratio each year compared to the previous year until the target is reached. In addition, targeted net borrowing should be lower than planned capital expenditure plans and payments to PPPs limited to 5% of previous years' tax revenue.

market needs, (ii) Diversifying the energy supply and fully opening the energy market as well as (iii) Improving the business and investment environment.

Albania also needs to tackle corruption, improve the rule of law and strengthen institutions in order to promote competitiveness. Addressing these fundamental concerns is a prerequisite for a successful transformation of the economy. The Commission is closely following the issues of 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: Improving the skills of the population to meet labour market needs

Albania's employment has continued to increase, but it still has significant levels of underemployment. In the age group 20-64, the employment rate improved by 10.8 pps between 2014 and 2019 (Q3) to reach 67.4%. This is the highest level among Western Balkan countries. However, 29.4% of employment in the non-agricultural sector was informal in 2018 (see the section on the informal economy under key challenge #3). A significant share of the population was underemployed with self-employed representing 33.6% (including subsistence farmers), temporary employees 9.4% and part-time workers other 16.4% of employed people. The gender employment gap (for people aged 20-64) in 2018 was 16.5 pps wider than the EU-28 average (11.5 pps). The unemployment rate for the age group 15-64 dropped by 5.7 pps between 2014 and 2019 (Q3) to 11.8%. Although jobs increased, a share of the fall in unemployment was also due to high rates of emigration.

A high share of young people neither in employment, nor in education or training (NEET), particularly among the most educated, indicates a very challenging labour market transition for young people. Between 2014 and 2018, the unemployment rate fell faster for young people aged 15-24 (10.7 pps) and 25-29 (7.9 pps) than for the age group 15-64 (5.1 pps). However, the share of NEETs among young people aged 15-24 fell by less over the same period (by only 4.4 pps to 26.5%). The NEET rate peaked at 32.9% for the age group 25-29 (2018). Almost two thirds (about 126,000) of NEETs aged 15-29 were not looking for a job in 2018. In stark contrast with EU-28 average, there are more NEETs among young Albanians aged 15-24 with a university degree (28.7%) and with upper-secondary education (31.1%) than among young people with a low level of education (21.4%). The situation is reversed for the age group 25-29, with the NEET rate decreasing with higher educational attainment. Nonetheless, the EU-28 averages show a much stronger correlation between higher levels of education and lower NEET rate.

Albania still has a very high share of the active population with a low level of education, but the situation improved considerably over the last nine years for younger people. Almost half of the population aged 25-64 has a low level of education (45.1%), which is double compared to the EU-28 average (21.9% in 2018). This is a legacy of long-term under-investment in education and training and of very high early school leaving rates. Despite falling considerably (from 42% in 2007 to 17.4% in 2018), the early school leaving rate in Albania continues to be the highest in the region. However, the country saw a remarkable shift in higher education levels between 2010 and 2018 as the share of university graduates in the age group 25-29 rose from 19% to 38.3%.

A higher level of education does not seem to result in significantly higher employment rates, indicating issues with the labour market relevance and quality of upper secondary and higher education. In 2018, the employment rate of young

Albanians aged 25-29 was only slightly higher for university graduates (66.7%) and for upper-secondary school graduates (63.3%) than for those with a low level of education (60.9%). The employment rates for the age group 20-64 are only slightly higher for people with university education (68.7%) than for people with a low level of education (66.9%). People with an upper-secondary diploma had the lowest employment rate (62.5%). This indicates mismatches between upper secondary and higher education programmes and the labour market demands, the need to adjust the education sypply to the demand for skills and to improve cooperation between the education system andbusinesses. By contrast, the EU-28 average shows a significant positive relationship between the level of education and the employment rate both for young people and for the overall population.

With an ageing population due to emigration and low birth rates (FES 2018) **and the generally low education level of the adult population, Albania has a growing need to increase labour market participation through upskilling, but it lacks the structures to meet this challenge.** Suitable strategies to increase employment levels would need to cover both addressing basic skills and improving the supply of technical mid- and high-level training to adults. In 2019, 55.8% of registered jobseekers had a low level of education, but public vocational training centres do not offer courses for people with poor literacy skills. Second-chance education is non-existent, despite high numbers of people having left the education system with a low level of education (ETF 2019). For example, secondary vocational schools do not offer the possibility to study part-time or allow people above 21 to enrol. The trends in job vacancies indicate a rapidly increasing demand for craft and trades workers. Nevertheless, public vocational training centres concentrate on offering a range of courses linked to basic occupations and language courses, which do not necessarily correspond to the needs of individuals and the regional business community (GIZ 2017). Different types and higher levels of skills, including IT, are also necessary because businesses continuously signal problems in finding well-trained technical staff. Private providers and NGOs could potentially fill the gap and the bylaw on the procurement of training services, planned for adoption in 2020, should enable this. It is also important to revamp the accreditation system and extend its coverage to private training providers, which is also planned for 2020.

There is a very low participation in lifelong learning, especially among people with low and upper-secondary education, and few opportunities for adult learning. According to LFS data of 2018, adult (25-64) participation in formal or non-formal education and training was extremely low (0.9%) compared to the EU-28 average (11.1%). The Adult Education Survey (AES), which measures participation over a longer time span of one year, also shows a significant gap between Albania (9.2%) and the EU-28 average (45.1%). Problems include a lack of adequate adult training facilities and supply, especially outside bigger urban centres. As per the last census, 47% of the population lives in rural areas and engages in agriculture while vocational schools or training centres and counselling services remain unavailable in these areas. Adults, especially older workers, do not consider it worthwhile to invest in further training. According to AES, 32.3% of people with higher education took part in formal and non-formal education compared to 7% of those with upper-secondary and only about 2% of people with a low level of education.

The scarcity of social care services is a major obstacle to the social integration of vulnerable people. Only 10,065 people, or 0.35% of the population, received social care services in 2019 (State social services data). Albania only provides five out of the seven types of services defined by law. They are distributed unevenly across the country and are completely lacking in one third of municipalities (21 out of 61). The government set up the Social Fund at national level in 2019 to help roll out new social care services, but many municipalities lack the capacity to assess needs and prepare a social care plan. Only 24 municipalities (of 61) have a social care plan, which is a pre-requisite to apply for funding under the Social Fund. Moreover, the Fund has scarce finances available, insufficient given the nature of the challenge. The lack of social care services limits the capacity of the public employment services to promote activation measures among vulnerable groups, including upskilling.

Reform measure 19 (Strengthening social protection, and social inclusion measures) addresses the challenge of scarce social care services. Albania plans to support municipalities to draft social plans, to build their capacity to take up the Social Fund, and to establish needs assessment and referral units. Another activity aims to support the employment of persons with disabilities through social enterprises. However, the credibility of the measure is undermined due to the lack of relevant quantitative targets and a specific budget allocated to it.

Albania needs to consolidate the significant progress achieved in 2019 on the legal and institutional framework governing employment and skills policy by allocating staff and focusing on implementation. *Reform measure 18 (improving the employability of the most vulnerable unemployed jobseekers through better targeted EPPs and employment services)* is relevant to the key challenge and Albania made considerable progress in implementing this in 2019. Adoption of the Employment Promotion Law (in March 2019) opened the door to setting up the National Agency for Employment and Skills (NAES). The agency integrates the functions of the National Employment Service and of the management of VET providers. The NAES will have the capacity to analyse the demand for skills to be able to offer ALMPs and VET courses that are relevant to businesses. Albania approved an increase in staff from 36 to 90 in December 2019, expected to be completed by the end of 2020. Staffing of the Directorate for Employment and Skills Development Policies at the MFE is also extremely low and plans are in place to increase staffing in 2020. At operational level, Albania revised its current employment promotion programmes (EPPs) and developed two new programmes (on community employment and self-employment) in 2019. EPP implementation in 2020 and 2021 will show whether the 2019 policy guidance to better target the measures will be achieved. However, the plan to extend the coverage of registered unemployed people with EPPs from 6.4% in 2018 to 7.3% in 2022 is very modest. Albania made little progress under this measure on some activities planned for 2019: on expanding services to rural areas and on strengthening cooperation between market players to identify and develop integrated case management.

In 2019, Albania strengthened its VET legal framework with the aim of increasing the quality and labour market relevance of VET. Albania has adopted most bylaws linked to the VET law of 2017 and has prepared other draft laws for adoption. With the help of donors, it brought in work-based learning in 2019 in some short-term courses offered by VTCs. This needs to be expanded. About one third of the current VET schools receive donor support to improve their curricula, teacher skills and work-based learning, but there is a further need to invest in the quality and labour market relevance of VET. Best practices from different donor-led initiatives are not yet standardised at national level nor replicated to the other two thirds of VET schools. The rate of VET graduates joining the labour market within one year of graduation remains unsatisfactory (46% employed or employed and studying, 29% continue studying, 20% unemployed). Before investing in the quality of programmes and in the interest of efficiency, it is essential to optimise the network and supply of VET providers. This is planned under *reform measure 17 (improve the quality and coverage of VET while ensuring linkages with the labour market)*. When framing the optimisation plan, it will be important to consult local stakeholders, to take into account the demand for skills and to ensure adequate geographical coverage.

There is potential to further develop secondary, post-secondary and higher VET provision. Despite the fact that only about 20% of students enrol in VET schools and around 80% attend general secondary schools (*gymnasia*), the employment rate of VET graduates (55.2% in 2018; ISCED 3-4) is higher than that of secondary school graduates (49.2%). Gymnasia do gymnasia do not include in the curricula any subject matter preparing students for the world of work. Despite bringing in some two-year undergraduate programmes at higher education institutions, post-secondary and higher VET education remains underdeveloped. Given the already high graduation rates from universities, this could become a valid option for both VET and secondary school graduates, also provided by future multifunctional training centres.

Albania made progress on curriculum reform in pre-university education, but teachers need more training to implement the new curriculum. Albania finalised the introduction of new competency-based curriculum in pre-university education (including pre-school) in the school year 2019-2020. With low public spending on pre-university education (2.38% of GDP in 2018, far behind the goal of 3% of GDP set to be achieved by 2017), the resources for infrastructure, facilities, teaching materials and teacher training are insufficient. *Reform measure 14 (finalisation of the pre-university curricular reform, training and hiring of teachers)* does not address these needs sufficiently. Teachers received a very basic three-day theoretical training on the new curriculum, but they would need more intensive support on practical implementation, in step with the major change in the educational system (UNICEF 2019). Although the measure announces a shift in focus from bringing in new curriculum to providing teachers with further training, it plans to train only 1,100 heads in the professional network of teachers with an annual budget of €37,000 for 2020 and €40,000 for 2021 and 2022. This is by no means sufficient and not in line with the needs identified in terms of practical training in managing the curriculum and classroom teaching. Albania lacks adequate mentoring and ongoing in-service teacher training. There is a need to give teachers intensive preparation for this by providing more continuous training support rather than one-off short-term courses. Practical demonstration classes could also be run to support teachers (UNICEF 2019). In addition, a shift in the assessment practice is necessary to evaluate pupils based on competences, but the reform doesn't plan any measures on this front. The measure plans to invest in capacity building of staff in local education units on quality assurance, which is necessary. The initial and continuous professional development of teachers is not yet aligned with the new curriculum in pre-university education.

Key challenge 2: Diversifying the energy supply, increasing energy efficiency and improving the financial sustainability of public energy companies

The Albanian economy is hampered by the inefficiency of its energy market and the insecurity of its energy supply. Albania depends almost exclusively on hydropower for electricity generation (98%). Though this makes a positive contribution to decarbonising the economy, it makes Albania highly vulnerable to variable hydrological conditions, as well as to the impact of climate change. In most of the recent years, Albania has been a net importer of electricity (up to 60% annually), which highlights the importance of a fully functional regional energy market integrated with the EU. Power cuts still happen, which may become an obstacle to growth, including in the growing tourism sector.

Albania forms part of the trans-Adriatic pipeline project (TAP), which transits gas through Greece and Albania to Italy and Western Europe. Although the project is progressing on schedule, Albania is still not connected to any international gas networks. It has an outdated pipeline network of almost 500 km, which is mostly not operational. This means businesses and industry rely heavily on the electricity sector. The government plans to convert the currently inactive oil-fired Vlora thermal power plant into a gas-fired plant in the medium-term after connecting it to the TAP. This would stabilise the generation of electricity during droughts in the southern part of Albania.

Since the 2000s, the government has stimulated the installation of domestic hydropower generation capacity through fixed-price power purchase agreements (PPAs). To this end, the government offers investors in hydro power plants (HPPs) with installed capacity of less than 15 Mw PPAs that guarantee to buy all their production for a 15-year period at preferential feed in tariff. 117 HPPs have already been built and a further 43 are planned, using this model. In 2019, private producers provided over 30% of the electricity generated in Albania, and half of that was generated by small HPPs benefiting from preferential feed-in tariffs. The total contract value of public-private partnerships amounted to around 31% of GDP in 2019, with 48% of this in the energy sector. The fiscal impact and risks associated with the current electricity generation model are not clearly quantified or monitored. The implicit subsidisation of all household and business energy bills due to the tariffs not covering the costs, added to insufficient payment collection, is an inefficient use of public funds and poses a disincentive for energy efficiency. These small private HPPs do not improve the stability of domestic electricity production because their production suffers from drought mostly at the same time as the public HPPs. The government has committed to re-examining awarded concessions for the construction of small HPPs in view of the concerns raised about the wider environmental impact and negative effects on local communities and on tourism, as well as their fiscal costs and economic viability.

Given its natural endowments, Albania has the potential to diversify its renewable energy sources. In addition to hydropower potential, and the planned gas connection of the Vlora power station to the TAP (which should enable the supply of natural gas by means of future-proof infrastructure as a transitional source of energy), Albania enjoys abundant solar irradiation and favourable wind speeds. This makes solar photovoltaic and onshore wind cost-competitive in many locations (IRENA, 2017). In addition, the expected increase in tourism and intensification of the agricultural sector, as well as the impact of climate change, may put additional strain on Albania's water resources. Therefore, it will be necessary for the country to broaden its strategic approach by diversifying electricity generation through increased investment in solar and wind power.

Albania has recently refocused its action on renewables but there is room to improve the efficiency of support schemes for renewable energy projects. Albania amended its national renewable action plan incorporating a revised target for 490 MW of solar and 150MW of wind capacity to help meet its target of 38% renewables in 2020. Its high dependence on hydropower has nevertheless led to a lower share of renewables in 2019 due to poor hydrological conditions. Albania has also held the first-ever renewable energy support auction of the Energy Community, in November 2018 (50 MW of solar PV). In January 2020, it launched the second auction, for the construction of a 140 MW photovoltaic power station. In this auction, the contract is for a PPA with state-owned power distribution operator (OSHEE) for the first 15 years of operation, but with a premium tariff that was pre-set in the auction. The use of feed-in tariff hampers the opening of the auction market and damages consumer interest by imposing high prices outside market trends. The falling costs of renewable energy offer new scope to improve the efficiency of support schemes for renewable energy projects by using competitive auction mechanisms instead. The renewable energy support schemes are of limited range and both private households and SMEs have limited access to relevant technologies.

The government should put a greater focus on energy efficiency. In spite of some progress made in recent years, electricity distribution losses in 2018 remained high at 24.4%. To implement the energy efficiency law, Albania has adopted an action plan that aims to reduce energy use by 6.8% by 2020. However, implementation of the action plan is behind schedule. Albania's economy remains three times more energy-intensive than the EU 28 average. Improving energy efficiency will reduce the energy needs of the economy, reducing production costs, improving energy security and helping to narrow the trade deficit. The transport and residential sectors, which account for up to 70% of energy consumption, should be the main target for energy efficiency measures. Although the focus so far has been on public sector, there is a need to provide incentives for energy efficiency in the private sector and in households. The government has difficulty in allocating national funds to set up an Energy Efficiency Fund and intends to rely mostly on donor support for investment in this field, which may jeopardise the pace of progress.

Albania has adopted legislation to liberalise and unbundle its electricity and gas markets in line with the EU's third energy package, but neither the liberalisation nor alignment with EU law is yet complete. Functional unbundling has not yet been finalised. Electricity prices are still regulated and should be gradually liberalised once legislation is implemented. The electricity market remains closed by regulated wholesale contract between state-owned generation and distribution companies, which needs to be phased out. The government has taken initial steps to set up the Power Exchange after a long delay, as it has finalised the preliminary operating rules. This should allow the Power Exchange to be set up by the end of 2020, but it is planned to become operational only by the end of 2021. Customers are not yet able to change supplier. The retail market opening progressed with the exclusion of users connected to the 35 kW network from the regulated prices by OSHEE as the last-resort supplier. As a result, customers connected to the 20 kW network remain under regulated supply, which still leads to excessive use of public service obligation provisions.

The ERP sets out two measures that are well aligned with the challenges identified and largely respond to the policy guidance issued in 2019.

Reform measure 01 (Further liberalisation of the energy market) is rolled over from the previous ERP, and is in line with the obligations under the EU Third Energy Package, Albania's own strategies, as well as the key challenge identified. However, the measure is not embedded in the overall framework of accompanying actions, such as strengthening the regulatory body, demand management or price reforms. The price and tariff reform will require further action, though bill collection rates have continued to improve. Despite progress made on market liberalisation, delays continue in establishing the Power Exchange, the reasons for which are not explained in the programme. The indicators selected are insufficient to enable implementation to be monitored and baselines and targets are not identified. The positive impact on competitiveness is clearly identified, but the environmental impact is not covered.

Reform measure 02 (diversifying energy sources through the promotion of renewable energy sources and energy efficiency improvements) is a new measure that refocuses action in line with the 2019 policy guidance to diversify energy production with renewable resources (RES) beyond hydropower. It also outlines specific plans to create the conditions needed to improve energy efficiency. The measure is in line with the updated national consolidated renewable energy action plan for 2019-2020 adopted in August 2019, which plans for the expansion of installed electricity to achieve the national target of 38% renewable energy consumption in 2020. The outlined activities are specific and include drafting secondary legislation to improve the integration of renewable energy into the electricity grid and to stimulate private investment in energy efficiency. The proposed indicators appear ambitious given that policy implementation is in the early stages. The plan outlines the expected impact on competitiveness, but does not mention the possibility to procure renewable energy without state subsidies.

Key challenge #3: improving the business and investment environment

Albania's business environment continues to suffer from structural weaknesses and reform progress is slow. Albania's private-sector development remains below its potential, as efforts to improve the business environment lack effective policy instruments and a more strategic approach. The private sector mainly consists of micro and small enterprises, which face obstacles to access financing due to their lack of business know-how, low financial literacy and high degree of informality. The reforms to improve the economy's competitiveness have stagnated, and Albania has dropped down in ranking in both the WEF Global Competitiveness Survey and the 2020 World Bank Doing Business report. In the latter, Albania fell 19 places compared to the previous year, and its ranking remains below most of its regional peers. The main business environment obstacles identified by Albanian firms were tax rates, competitors' practices in the informal economy, an inadequately educated work force, transport and corruption (Enterprise survey, Albania, 2019). Additional issues due to unclear land ownership continue to affect agriculture, tourism and infrastructure development, investment and access to finance and they also feed the informal economy.

Weak contract enforcement and a high regulatory burden on business continue to hamper private-sector development. Albania needs to significantly streamline its business regulations, including better impact assessments of legislative proposals, regular stakeholder consultations and strong monitoring mechanisms. In 2018, the government brought in the requirement to carry out a regulatory impact assessment of major legislative changes, but implementation is at an early stage and results in terms of better regulation are unclear. Consultation with stakeholders is mainly carried out through online publication of legislative proposals, but it is not efficient, generating little input due to the lack of a discussion forum. More could also be done to harmonise regulations with the Code of Administrative Procedures and on e-Government to facilitate access to administrative procedures. Against this background, the government has announced an ambitious plan to expand the coverage of the services offered by the e-Albania portal to cover up to 100% of all public services offered to businesses.

Strengthening the rule of law is still needed to improve the business environment and to fight corruption in Albania. The ambitious reform of the justice system, which is currently being implemented, is expected to promote an effective and independent judicial system. Independent judicial institutions are crucial to combat corruption and the informal economy. It is also a pre-requisite for creating an environment that is conducive to investment and business. Effective measures to further strengthen the rule of law ensure adequate and timely contract enforcement and increase the transparency of legal changes would have a positive impact on the business environment and help boost productivity and competitiveness.

The informal economy continues to constrain Albania's economic development. Despite the successful measures taken to address the informal economy, it is estimated to account for at least one third of GDP. This is causing tax revenue losses, a lack of labour protection and unfair competition among firms. The significant degree of informality and the substantial share of unpaid family workers in the agricultural sector have a negative impact on the quality of the labour market, lack of decent work and undermine the social protection system. Around 29% of the workforce is estimated to be in undeclared work (LFS, 2018). The number of employees without a written contract is well above the average in other countries in southeast Europe, while care economy is not regulated. Albania rolled out a country-wide campaign to combat the informal economy in 2016 and the numbers of registered tax payers and social contributors increased significantly but reliable updated data on the informal economy in 2019 is not available. Since 2019, the government has implemented a risk-based approach to focus its action on the informal economy in a more efficient way and to shift the focus away from mobilising additional budget revenue by stepping up the number of checks and inspections. State Labour and Social Services Inspectorate should be further empowered with human and financial resources. Incentives remain insufficient to bring companies and employment into the formal economy, as is progress on business environment reforms to reduce disincentives to formalisation.

Exports remain focused on low-value-added goods and industrial innovation needs more support. Policies and funding to support innovation and industrial development barely exist: Albania does not yet have a business incubator, nor any science or technology park and has few institutional support services promoting innovation and linking universities and research centres with innovative SMEs. The limited administrative capacity of the Ministry of Economy and Finance is an impediment to developing a strategic approach to SME development and to formulating support policies. The Albanian Investment Development Agency (AIDA) proposes four funds to support entrepreneurship and innovation (targeting competitiveness, innovative start-ups, creative economy and innovation). The budget and support limit per beneficiary is relatively low. The complementarity of these funds could be strengthened and gaps are not accompanied by additional support for linking with partners, for business expansion or to export. These funds are not accompanied by additional support to link partners, business expansion or exports. SME uptake of AIDA's business support services has recently improved, but remains insufficient. In 2017, only 1.2% of all SMEs in Albania used business support provided by AIDA. This is far below the already low regional average of 3.7% in the other five Western Balkan economies (SME Policy Index). Given that two-thirds of Albanian SMEs were not located in Tirana in 2017, AIDA has decided to fully digitalise its application process. In addition, it can consider collaborating with local institutions, such as municipalities or chambers of commerce to promote AIDA's funds and improve uptake. Albania has been a member of the Enterprise Europe Network (EEN) since 2015. The aim of the network is to support companies to grow and innovate internationally, and it has three partner associations. The participation of Albania companies in EEN consortia improved, but remains below potential with only five successful projects. The Small Business Act Profile of Albania confirms that in order to increase the number of jobs in the private sector, it is essential to scale up the institutional capacity of business support services that aim to improve access to finance and support for scaling-up, and to provide internationalisation support to existing firms.

Insufficient consumer protection legislation and the lack of promotion by the government hinder the development of e-commerce. In 2017, only 7.7% of businesses used the internet for e-commerce. The lack of digital skills in the country negatively affects both the demand and the supply of digital products. It also undermines the potential of digitalisation to create employment and generate positive spill-over effects to other sectors of the economy, in particular services, such as tourism. Adequate public support for innovation and investment in the skills of the Albanian population could stimulate private investment, which can boost competitiveness and help diversify the economy.

The ERP proposes four measures, three of which are new, to respond to the challenges in the business and investment environment. The analysis of the key challenges given in the ERP is rather accurate and outlines the main issues, as identified by the business surveys. In addition, two measures in the programme under the headings of innovation and digital economy, and one measure on trade can help tackle the main weaknesses in the business environment.

Reform Measure 7 (property tax reform and establishment of a fiscal cadastre) is rolled over from the previous ERP for 2019-2021. Implementation of the property tax will strengthen overall domestic revenue collection and public finance management. The government expects this to generate positive results on the transparency of the property market as well as an increased use of property used as collateral to access finance. Full implementation of market-value-based property taxation was expected to be applied in all 61 municipalities in 2020, but significant delays are reported. Albania has correctly identified the potential implementation risks, however it puts forward insufficient mitigating measures to improve implementation over the upcoming period. The indicators to monitor activities do not tally with the implementation period, making monitoring impossible. The measure proposes an opportunity to improve the gender balance in property registration that should be explored.

Reform measure 08 (developing a legal framework in support of innovative start-ups). Under Albania's current legislation, there is still no specific law governing start-ups, with the legal framework spread across different strategies. Therefore the new measure to develop a legal framework to support start-ups is a welcome response to the needs of the economy, and to the 2019 policy guidance. It correctly analyses the importance of entrepreneurship to economic development, with a welcome focus on female entrepreneurship. With support from the EU for Innovation project, Albania has prepared a first draft Start-up Law, which is under discussion with the business community. Adoption and implementation of the law will represent a significant step towards improving the innovation ecosystem in Albania. A more ambitions adoption schedule could have been proposed. The planned impact of implementation is limited and more ambitions measures are needed to support the ecosystem for innovation.

Reform measure 9 (improving access to finance for SMEs). This new measure responds to one of the key challenges to SME development: lack of access to finance. The plan to strengthen the administrative capacity of the Ministry of Economy and Finance is key to developing a strategic approach to SME development and formulating support policies, also beyond access to finance. It gives a good analysis of the importance of the SME sector for the competitiveness of the economy, and of the poor access to support measures. It will be important to analyse the efficiency of existing support schemes before creating new financial instruments. Targets for the use of the centralised information platform appear modest (to reach 1,000 SMEs in 2021 and 5,000 in 2022) considering that Albanian economy is based on SMEs that generate more than two thirds of the total value added and about 80% of employment. The programme outlines some potential risks but does not suggest mitigating measures. The outlined contribution of the measure to female entrepreneurship is welcome.

Reform measure 10 (modernisation of retail payment instruments) is a new measure that aims to create the conditions needed to increase financial intermediation for the whole economy by improving the offer of banking services. This measure has a significant potential impact on the deepening of the banking sector, which can contribute to improving access to finance, as well as to combating the informal economy, money-laundering and tax evasion. Given the low level of banking sector penetration, the objective to increase the share of adults who have a bank account from 40% (in 2017) to 70% (in 2022) could have a positive impact not only on access to finance, but also on the level of entrepreneurship of the population. The measure is well designed and the activities are clearly outlined with a specific timeframe and funding. The programme clearly defines risks to the successful implementation of the measure and outlines mitigating measures.

Box: **Monitoring performance in light of the European Pillar of Social Rights**

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. Since the 20 principles are essential for countries if they are to achieve fair and well-functioning labour markets and welfare systems, 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 aligning of their labour markets and welfare systems with those of the EU.

Relative to the EU-28 average, there is scope for improvement in all available indicators of the Social Scoreboard supporting the European Pillar of Social Rights[4]. Albania has made some improvements on employment and unemployment rates but it has substantial underemployment. As regards the share of young people neither in employment, nor in education or training (NEETs), it achieved a very modest decrease between 2016 and 2018 was very modest (0.5 pps), remaining among the worst performers in the region. The gender employment gap (20-64) was wider than the EU-28 average in 2018 (16.5 pps vs 11.6 pps) and worsened between 2016 and 2018. There was an extremely high rate of people at risk of poverty or social exclusion (49%) in 2018. This is the highest level in the Western Balkans and Turkey. Albania is a medium performer in the region as regards 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 average, improving
	Gender employment gap	Worse than EU average, worsening
	Income quintile ratio (S80/S20)	Worse than EU average, improving
	At risk of poverty or social exclusion (in %)	Worse than EU average, improving
	Youth NEET (% of total population aged 15-24)	Worse than EU average, improving
Dynamic labour markets and fair working conditions	Employment rate (% of population aged 20-64)	Worse than EU average, improving
	Unemployment rate (% of population aged 15-64)	Worse than EU average, improving
	GDHI per capita growth	N/A
Social protection and inclusion	Impact of social transfers (other than pensions) on poverty reduction	Worse than EU average, deteriorating
	Children aged less than 3 years in formal childcare	Worse than EU average, trend N/A
	Self-reported unmet need for medical care	Worse than EU average, deteriorating
	Individuals' level of digital skills	N/A

Albania still presents very low education outcomes, partly due to low levels of funding. There are high rural and socioeconomic differences in access to education and the early school leaving rate remains the highest after Turkey.

The social protection system does not adequately target those in need. Although there is a social assistance scheme, the amount of allowances paid is insufficient to prevent poverty. This is documented by the low impact of social transfers (excluding pensions) on poverty reduction which was only 11.03% in 2018 compared to 33.2% in EU-28. The effects of the social assistance reform on better targeting still need to be assessed by tracking the share of households in the poorest decile/quintile that are covered by the scheme. The capacity of local governments, to which the responsibility for provision of social care was decentralised, is too low. The pension system has almost universal coverage, albeit with low pensions. The coverage of public health care insurance is very low, with only 46% of women and 37% of men covered (INSTAT 2018), even less for some vulnerable categories. 21.5% of people aged 16 years and over reported an unmet need for medical care in 2018, over 10 times the EU-28 average.

Data availability improved in 2019 with the first publication of the Survey on Income and Living Conditions (SILC), but some headline indicators of the Social Scoreboard are still not measured (GDHI) or not publicly available. Micro data from SILC is not yet made available to researchers to carry out up-to-date analyses of social protection and inclusion policies. Employment data are regularly measured both in the Labour Force Survey and by National Employment Services.

[4] The Social Scoreboard includes 14 headline indicators, of which 12 are currently used to compare Member States performance (https://ec.europa.eu/eurostat/web/european-pillar-of-social-rights/indicators/social-scoreboard-indicators). The 12 indicators are also compared for the Western Balkans and Turkey, with one small adjustment for the age bracket for the unemployment rate (reducing the upper age bracket to 64 instead of 74 years) due to data availability. The assessment includes the country's performance in relation to the EU-28 average (performing worse/better/around the EU-28 average, generally 2018 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). Data from 2016-2018 are used and can be found in Annex A.

5. Overview of the Implementation of the policy guidance adopted at the Economic and Financial Dialogue in 2019

Overall: Partial implementation (38.9%)[5]	
2019 policy guidance	**Summary assessment**
PG 1 Advance fiscal consolidation in 2019 Develop a medium-term consolidation plan to lower the debt ratio below the limit stipulated in the organic budget law. Develop a compre38.2hensive medium-term revenue mobilisation strategy to effectively guide an increase in revenue, among others by addressing informality and tax evasion.	There was **partial implementation** of PG 1. 1) **Partial implementation:** The nominal reduction of the public debt was higher than planned but the debt-ratio will decline less than planned on account of the lower GDP (from 67.9% to 65.8% instead of 65.5%). The reduction would therefore be 2.1 pp, 0.3 pp less than the planned. 2) **Limited implementation:** The Decision of Council of Ministers on MTFF 2021 -2023 states that the government aims to reduce public debt ratio on average by about 1.5 pps annually over the long-term until 45 % public debt ratio is reached. In addition, the government commits to strengthening its fiscal rules in the updated PFM-strategy 2019-2022. This shows the will to commit to a regular pace of debt reduction but falls short of full-fledged consolidation plan, which should elaborate how and when the 45% ratio could be reached. 3) **Partial implementation:** The development of the medium-term revenue strategy has begun, which identifies options to increase revenue while avoiding ad-hoc changes in taxation policies. With the support of the IMF, a first draft could be ready by May/June 2020 and includes an implementation schedule for some elements starting mid-2020, while the overall strategy is foreseen to be subject to broad stakeholder consultations before being adopted. In addition a tax expenditure report was published.

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

PG 2	There was **limited implementation** of PG 2:
Ensure systematic and complete recording of fiscal liabilities in regular fiscal reports and the macro-fiscal framework stemming from Public-Private Partnerships and of arrears at all government levels	1) **Partial implementation:** PPP monitoring and reporting improved: payment obligations are recorded in the preliminary summary report on PPP contract performance MOFE prepared in accordance with the requirements of the new PPP law. The report also assesses the performance and risks of 10 of the largest PPPs. Records of arrears have been published but not comprehensively (no aggregate of VAT refund arrears and others and LG). MOFE confirmed it will integrate a break-down of total arrears calculated by the treasury in the macro-fiscal framework as Memo item (still to be provided). The ERP and MTFF report VAT net and gross of refunds.
Improve planning and execution of public investments.	2) **Limited implementation:** Capital budget implementation was lower in 2019 than 2018. In July 2019, bonus system and unsolicited proposals were abolished for all sectors except for energy (which accounts for 80% of all PPPs), airports and ports. The number of unsolicited procured PPPs/concessions has declined in 2019. PPPs remained in a parallel investment project approval and selection process, the public investment management guidelines are not fully applied.
Increase spending on education and research in percentage of GDP in line with the government's policy objectives	3) **No implementation:** In 2019, functional education expenditure declined according to the ERP, but might be underreported, because of statistical issues with the classification of functional and local government's expenditure on education. For 2020-2022, central government expenditure for education is planned to decline from 2.9 to 2.5%, but nominal expenditure will increase slightly in the 2020 budget. Statistics on research spending are not exhaustive but there is no indication for an increase of the very low public spending on research.

PG 3 Explore potential measures for developing the market for currency derivatives for hedging against exchange rate risks. Ensure the fully operational implementation of the remaining measures of the non-performing loan resolution strategy, also with a view to ensuring improved access to finance for corporates. Implement measures in the realm of the government in line with the Memorandum of Cooperation to increase the use of the national currency.	There was **partial implementation** of PG 3. 1) **Partial implementation:** The authorities have started to explore options for developing the market for currency derivatives by engaging in technical assistance with the IMF. They intend to follow up on the IMF recommendations once received. **2) Substantial implementation:** By end-2019 the authorities have implemented most measures in their Action Plan on NPL resolution, including the out-of-court restructuring framework. Some important issues remain to be addressed (adopting the three by-laws to the bankruptcy law, resolving the deadlock around the private bailiffs' scheme, improving the credit registry and the registration of property). **3) No implementation:** Following the central bank's measures introduced in 2018 aimed at supporting the use of the national currency, there was no progress on the introduction of measures in the realm of the government.
PG 4: With a view to improving the investment climate, continue strengthening the justice system by implementing the justice reform. and improve the provision of technical support services for micro, small and medium-sized enterprises, including through the development of a support network to help them upscale, invest, innovate, digitalise and export. To increase investments in tourism in particular, adopt the tourism strategy and start its implementation, focusing on sustainability through natural resource management. Provide for vocational education and training in line with the investment needs of SMEs and the tourism sector.	There was **partial implementation** of PG 4. 1) **Substantial implementation:** The implementation of the justice reform proceeds well and is on track. The elements linked to business environment should be reinforced. 2) **Limited implementation:** AIDA's capacity to support SMEs has been strengthened and the implementation of the support schemes has improved. Information campaigns have been carried out on the support opportunities offered by AIDA and donors; the implementation of the programme "EU for Innovation" has started, providing support at different stages of innovative enterprises of projects. No support network to help other SMEs upscale, invest, innovate, digitalise and export has been set up. 3) **Partial implementation**: the Tourism Strategy has been adopted and implementation has started. Further efforts to focus on sustainable and integrated natural resource management are needed. Activities have started to identify needs, develop an annual training plan and to accreditate institutions providing VET in the field of tourism. However optimising the VET offer in consultation with the business community is needed.
PG 5: Ensure effective liberalisation of the energy market, with complete unbundling and a functioning power exchange. Finalise implementation of the law on renewable energy sources to ensure their integration into the market.	There was **limited implementation** of PG5: 1) **Limited implementation**: The legal unbundling of the distribution system operator OSHEE SA from its supply activity (with the establishment of three new companies) has taken place, but functional unbundling is not finalised. The consumers connected to the 35 kW network are no longer supplied by OSHEE as a last resort supplier at regulated prices. The consumers connected to the 20 kW network are still using regulated prices. The establishment of a Power Exchange (APEX) has started and the call for selection of participants in the market operator's capital was opened in February 2020. The establishment of APEX is expected by the end of 2020 but will only be operational in 2021. 2) **Partial implementation**: The completion of methodology for calculating the electricity price for self-producers that benefit from the Net Metering Scheme is foreseen to be approved in 2020. The updated methodology

	for determining the purchase price of electricity produced from small resources up to 2 MWp for self-consumption and selling energy is expected to be adopted in April 2020.The second auction, for the construction of a 140 MW photovoltaic power station, was launched in January 2020. However, no RES capacities have been installed under competitive bidding yet.
Adopt the secondary legislation for the laws on energy efficiency and energy performance of buildings, including the setting up of the Energy Efficiency Fund.	3) **Limited implementation:** the secondary legislation is under preparation, but not adopted yet (expected to be approved by end 2020). The need for setting up of an Energy Efficiency Fund is being reevaluated and a possibility of an alternative financial mechanism for investment in energy efficiency is considered.
PG 6: Improve the targeting of active labour market policies (ALMP) and implement the prepared Vocational Education and Training reform package.	There was **partial implementation** of PG6: 1) **Partial implementation:** Albania made progress on the legal and institutional framework to improve the targeting of ALMPs. Based on the approved Employment Promotion Law (March 2019), Albania revised and approved its existing employment promotion programmes (EPPs) in 2019 to make them more targeted and to improve how they are implemented. Two new EPPs (on community employment and on self-employment) are expected to be approved in early 2020. The bylaw on the Social Employment Fund, expected to bring more resources for specific ALMPs for people with disabilities, and the operationalisation and staffing of the new National Agency for Employment and Skills are still to be achieved in 2020. Albania rolled out a 'Start Smart' course nation-wide in 2019 to provide training in soft skills and to create a profile of jobseekers. The profiles are not yet used by employment offices, however, to better target their subsequent services. Albania made significant progress on the VET legal framework in 2019 as a necessary basis to start implementing the VET reform. It adopted most of the bylaws that were lacking. It has yet to begin implementing the new legal provisions and has yet to adopt a number of necessary measures (e.g. optimisation of the network and supply of VET providers, autonomy of VET providers, updates to the accreditation framework, increasing training of teachers and instructors, standardising best practices at national level, upgrade skills anticipation methodologies, and bringing in more worked-based learning and cooperation with businesses).
Under the steer and with financial support from central government, establish capacities at the level of all local government units for assessing social care needs and preparing social care plans.	3) **Limited implementation:** There was not much activity by the central government on this front. The 24 existing social care plans have been developed with the help of donors. In December 2019, the central government updated the National strategy on social protection (2020-2023) which plans to build capacity and prepare social care plans at municipal level, but the strategy is yet to be implemented.
Increase investment in early childhood education and care, especially for increasing enrolment of children from vulnerable families	4) **Partial implementation:** In 2019, Albania invested additional resources in increasing the number of teachers in kindergartens by about 10% (from 4,410 to 4,850). The aim is to lower the pupil/teacher ratio, especially in bigger cities, and thus improve the quality of education in kindergartens. Albania has not adopted any specific new measures to address the policy guidance on increasing the enrolment of children from vulnerable families. It continued to implement the initiative 'Every Roma Children in kindergarten', ongoing since 2014, with a slight increase in the enrolment of Roma and Egyptian children from 2,570 in 2018 to 2,679.

6. ASSESSMENT OF OTHER AREAS AND STRUCTURAL REFORM MEASURES INCLUDED IN THE ERP 2020-2022

Transport

Given the geographical location of the country, Albania's transport sector is strategically important for competitiveness and economic growth. Albania is ranked 120th out of 141 countries for transport infrastructure in the World Economic Forum's Global Competitiveness Report 2019, which is lower than its regional peers and in the previous year's ranking. According to BEEPS 2019, transport continues to be one of the main obstacles to small companies doing business. The Albanian railway network operates below its actual capacity, due to a lack of investment, maintenance operations, and an outdated network. It has not yet achieved the unbundling of train operations from infrastructure management. Adoption of implementing legislation for the establishment of relevant structures and agencies, in particular the Railway Regulatory Authority is still pending. Maritime infrastructure is underdeveloped with inadequate capacity. The low quality of transport infrastructure is an impediment to integrating Albania into regional and global supply chains and it has a direct impact on the development of tourism and transit services.

Measure 3: Rehabilitation and reconstruction of the railway segment Durres-Tirana International Airport-Tirana

Albania has rolled over the transport measure but is not yet addressing the regulatory and structural needs related to the connectivity agenda, which would have a more direct impact on competitiveness. Implementation of the measure to rehabilitate and extend the Durres-Airport-Tirana railway will allow the development of intermodal transport, but its estimated impact on competitiveness appears over-optimistic, especially given the underdeveloped railway infrastructure. The expected impact is to double travel speed for passenger and freight transport between Tirana and Durres, which should boost rail traffic and reduce congestion on road. However, implementation of the reform is delayed and there is no explanation provided for the little progress made in 2019.

The programme outlines the main risks to implementation of the reform measure, and proposes mitigating measures. However, it does not provide specific information on the land acquisition plan, which is indispensable for the project to be completed, nor does it plan any mitigating measures to manage the expropriation risks. The timeline of the activities seems optimistic, given the low capacity in the sector. The indicators used are at project level and do not reflect progress of the reform in the sector, with an impact in the economy. The reform includes new information on electrification of the railway line but the impact of this on the timeline for implementation and the budget is not clear.

Agriculture, industry and services

Agriculture in Albania is characterised by low productivity and land fragmentation, which continues in the absence of a comprehensive land register. Overall, the agricultural sector is estimated to have contributed 18.4% to GDP in 2018**.** The share of the labour force employed in agriculture fell from 41% in 2015 to 38% in 2017 and to an estimated 39% in 2018, but remains high even by regional standards with a high share of women. Farmers suffer from low access to credit, which hampers their ability to invest in new technology and to acquire new skills. Improving the advisory system in agriculture, for the farming and agro-processing sector and channelling investment into agriculture, agro-processing and diversification could raise productivity, rural incomes and the level of agricultural exports.

The ERP correctly identifies the challenges and proposes one measure o defragmentation and consolidation of agricultural land, rolled over from the previous year. However the measure is poorly designed and does not propose a logical sequence of actions to achieve the expected results. Albania has not made progress in consolidating and defragmenting agricultural land due to the lack of a legal, institutional and administrative basis. The reform activities envisage partial digitalisation of the agricultural land register. No activities are planned to create the necessary conditions for land consolidation, such as to clarify property rights and develop a comprehensive land register, territorial planning, or environmental protection.

The programme contains an insufficiently developed budgetary impact assessment and cost per activity. The estimated impact on competitiveness is ambitious and can be expected only in the medium- to long-term. It lacks a mention of the real gender issues related to agricultural land ownership (certificates being issued mostly to the male members of the family). The key performance indicators are not properly selected, neither in how they reflect the activities implemented, nor the possible short-term outcomes of land consolidation. The section on potential risks correctly identifies the risk of opposition from land owners and rural communities. However it should also cover other risks, such as delays due to the lacking legal framework or property rights disputes.

Industry

Albania's industrial sector is weak and exports are concentrated in few, low value-added and low sophistication product groups. The ERP does not provide any information or analysis of industry in the country, nor does it propose any measures or policies. Industry accounted for around 13.9% of GDP in 2017, or 23.9% including construction. Manufacturing generates about 6% of GDP. Metallurgy, textile, mining and petroleum extraction are the sectors with the largest output and the main industrial exports are clothing, footwear, chrome, construction materials, oil and refined fuels. The ERP does not provide any information or analysis of the industry and its future potential. Relevant measures such as on the business environment, infrastructure improvements, innovation and trade stand in isolation. Nor does the ERP express a view on how these measures complement each other to diversify industry, and raise its competitiveness. propose any measures or policies.

Services

Albania's economic growth is driven by the services sector. Services represent around 47.5% of GDP, the biggest contributor to employment at 42%. The services sector has developed well in recent years, backed by the significant increase in tourism, construction and manufacturing. Positive developments in the export of services enabled Albania to generate a higher trade surplus on the services side and positively contributed to offsetting the structural trade deficit in goods. Diversification of the services sector, in particular developing services in the financial and ICT sectors, would help Albania to reduce its vulnerabilities caused by reliance on tourism and its exposure to external shocks such as political risks, weather and seasonality. The ERP lacks an analysis of the services sector, other than tourism, despite its significance for the country's economy.

As regards the tourism sector, the programme gives a good presentation of data on tourism based on international reports and the national strategy on tourism. It does not delve into issues such as the informal economy in tourism, the issue of property rights being an impediment to attract foreign investors in addition to classification and standardisation of accommodation units. There is no analysis of the water sector or the obstacles to its development to substantiate the reform measure on water and waste water. However, the programme indicates a number of measures are needed to develop the sector, including increased investment in infrastructure, addressing the informal economy, ensuring access to water in tourist areas, and improving water quality.

Reform measure 5: reform of the water and waste water sectors

Water resources are crucial for the development of Albania's economy, in particular the sectors of energy generation, tourism and agriculture. As such, the rolled-over measure on water and waste water is appropriate. The measure is in line with action to combat the informal economy and aims to ensure good governance and effective investment. The measure is based mainly on the new national strategy for the sector, which is in preparation, is defined broadly and takes a long-term perspective. However, the programme puts a short-term focus on three aspects; reducing non-revenue-generating water by 20%, that is complementary to the actions to combat informal economy; providing water 24/7 in coastal areas; and improving water quality. The indicators, which lack target years, are not in line with the timeframe of the ERP (2022) and cast doubt on implementation of the measure. The measure should indicate the budget that the government and donors will invest in investment in 2020-22 to achieve the targets.

Reform measure 6: increasing service standards in the tourism sector

Including this new measure is a welcome response to the policy guidance and the key challenges that the EU identified the previous year. However, the level of ambition of the measure does not correspond to the needs of one of the biggest and most promising economic sectors in Albania.

The lack of well-defined rules and regulations governing the tourism sector enables unfair competition, and it is considered as one of the main obstacles in the sector. In this context, the measure proposed is relevant but as formulated would appear to be a set of standalone actions, rather than a clear reform of the sector. It includes three actions that are not combined or linked with each other, and therefore the impact in the economy is not clear. The measures do not tackle the challenges linked to property ownership, natural and cultural resource management or the quality of infrastructure. The timeline for the activities is unclear, as the activities for 2021 and 2022 are the same. The indicators given do not cover the whole period and are insufficient to estimate the full impact of the measure. According to the 2015 law on tourism, categorisation of accommodation structures should have been completed by 31 December 2019. The section on risks could have elaborated on the reasons that caused this delay and that could have an impact on implementation of the measure. The impact on competitiveness could have been better detailed in terms of expected positive growth, higher number of tourists, potential additional jobs generated, etc.

Informal economy

The informal economy continues to constrain Albania's economic development. In spite of measures taken to address the informal economy, it is estimated to account for at least one third of GDP. This is causing tax revenue losses, a lack of labour protection and unfair competition among firms. The significant scale of undeclared work and the substantial share of unpaid family workers in the agricultural sector have a negative impact on the quality of the labour market, decent work and undermine the social protection system. Around 32% of the workforce is estimated to be undeclared (ACER, 2016). Around 40% of employees declared not to have a written contract with their employer, while 30% of employees declared that they did not pay for social and health security benefits in 2016. The number of employees without a written contract is well above the average of the other countries in southeast Europe. The government implemented a country-wide campaign to fight informality in 2016. However, the design of the measure was rather broad and focused mostly on securing additional budget revenue. They were implemented by increasing the number of checks and inspections rather than by offering incentives to bring companies and jobs into the legal economy. Considering the size of the problems caused by the pervasive informality, the ERP should include an appropriate reform measure.

Research, development and innovation

Albania's capacity in research, development and innovation (RDI) is low and the sector generates few positive effects for the economy. According to the Global Innovation Index 2018, Albania ranks 83rd in the world out of 126 countries with an efficiency ratio of 0.44, which ranks it 110th. About 0.1% of the population work in research in 2018, less than one third of the EU average. The low level of innovation in the economy limits Albania's potential to increase its productivity and produce medium to high-value-added products. The number of patent applications increased from 3 in 2011 to 18 in 2018, but still remains modest. With the budget of the national research and innovation fund totalling 0.04% of GDP, Albania remains behind most of the Western Balkan countries and far below the EU average of 2%.

Exports remain predominantly low-value-added and industrial innovation needs more support. Albania does not yet have a business incubator, or any science or technology parks. However, it has a few institutional support services promoting innovation and linking universities and research centres with innovative SMEs. The programme EU for Innovation can contribute to an improvement in the support for innovative start-ups. Albania's RDI institutions are not well-integrated into global RDI programmes and it has a low success rate in the EU's Horizon 2020 programme. The level of engagement of the private sector in RDI programmes is very low. According to World Bank Enterprise Survey 2019, the percentage of firms that invest in research and development increased from 1% in 2013 to 15.4% in 2019, indicating scope to strengthen government policy in this area.

Reform measure 11: improve the institutional capacity of Albania's research and innovation system

Albania has rolled over this measure from the previous year's ERP and improved the clarity of the actions and impact on competitiveness. However, the sources of funding remain unclear. The programme identifies some risks and proposes devising a strategic framework for the sector as a mitigating measure. Implementation of the triple-helix model continues to be low. The timeline for finalising the drafting and adoption of the smart specialisation strategy could be more realistic to allow for correct implementation.

Digital economy

Digitalisation is hampered by the low penetration of fixed internet services and a low level of digital skills. Although Albania performs reasonably well in terms of mobile broadband penetration (around 63%), fixed broadband penetration in households remains a challenge. Approximately 38% of the population has access to fixed internet. Moreover, the gap between internet access in rural and urban areas remains huge with around only 1% of the population in rural areas having access to broadband internet.

The development of e-commerce is hindered by challenges in consumer protection legislation and a lack of promotion by the government. In 2017, only 7.7% of businesses used internet for e-commerce. The lack of digital skills has a negative effect on both the demand and supply of digital products and digital skills need to be better integrated in the education system. Action to improve digitalisation and develop the population's digital skills has the potential to tackle high unemployment, especially in rural areas. It could create positive spill-over effects on other sectors of the economy such as tourism and could facilitate exports.

Measure 12: Adoption of the legal and regulatory framework for the development of broadband infrastructure

The rolled-over measure on implementation of the legal and regulatory framework for developing the broadband infrastructure is in line with Albania's 2020 digital agenda and the EU's strategy for the digital agenda in the Western Balkans and addresses key obstacles to competitiveness and growth. The proposed activities are clearly outlined and include installing broadband infrastructure in pilot areas. The programme identifies potential risks and proposes mitigation action. No funding is planned for infrastructure development, which undermines implementation of the measure. It identifies the expected impact on competitiveness, the social outcomes and potential risks, except for financing risks.

Trade performance

Despite its relative openness to trade, the Albanian economy is not well-integrated in global supply chains. Exports of goods and services amounted to around 78% of GDP in 2018 and the overall trade volume has continuously increased in recent years. 92% of Albanian products can access the EU market without customs duties. Albania mainly exports manufactured goods (footwear, garments), minerals and construction materials. Exports of services (which account for 58% of all exports) are dominated by tourism and related services. Albania has historically run a large goods trade deficit, which is partly offset by a surplus in the balance of services. Exports of goods continued to have a low level of diversification in terms of products and destinations and the potential for agricultural exports remained untapped. The trade in goods with other Western Balkan countries increased by 6% in 2018, mostly due to the 23% increase in trade with Kosovo in 2018, but it has not yet reached its full potential.

Trade remains constrained by non-tariff barriers with complex and unsynchronised border procedures. Non-tariff barriers, as well as limited quality certification services and laboratories available, continue to restrict trade. There is a large untapped potential to increase trade subject to cross-regional connectivity improvements and elimination of technical barriers to trade. The authorities recognise the challenges and have started to implement some measures to this end, focusing mostly on liberalising trade with neighbouring countries within the framework of the Regional Economic Area (REA).

Albania is encouraged to continue implementing all aspects of the REA multiannual action plan (MAP). The REA MAP is based on EU standards and will facilitate Albania's integration in regional and European value chains and help increase the attractiveness of the economy for foreign direct investment in tradeable sectors. Further connectivity with neighbouring countries in transport and energy will further strengthen access to and integration in the regional market. Creating a regional digital space and integrating Albania's labour markets more with neighbouring economies will create new opportunities for the country's young people, which is important given the high level of youth unemployment.

Measure 13: Facilitate cross-border movements of goods

This is partially a new measure, responding to the national priorities and regional initiatives such as the connectivity agenda and CEFTA Additional Protocol 5. Its implementation is a crucial step towards regional trade facilitation, which is also part of the Regional Economic Area multiannual action plan. The measure includes establishing a joint one-stop-shop at the border crossing point with North Macedonia, developing a computerised transit system in line with the EU-NCTS, and continuing certain activities to register authorised economic operators, postponed from the previous measure. The development of the new computerised transit system, which is a recommendation from the 2019 Enlargement Report, is now planned for 2021-22. There is no explanation given for the major delays in implementation from the previous year.

The expected impact on competitiveness is only discussed in general terms, as are potential social outcomes. Some risks are outlined, but in view of the delays of previous implementation, the programme should have put a greater focus on mitigating measures. To increase the impact on competitiveness, this measure needs to be combined with action to expand the country's industrial base in order to diversify tradeable goods.

Education and skills

Skills, reform of the curricula for pre-university education and higher education are analysed above in section 4 under key challenge #1. The relevant reform measures 14 and 17 are also assessed above.

Albania continues to struggle with low quality of education. Public expenditure on education is very low at 3.1% of GDP, 1.5 pps below the EU-28 average (2018 figures). After continuous improvements in previous PISA rounds, the results for 2018 are mixed: the results improved for mathematics, plateaued for reading and deteriorated for sciences. Overall, Albania ranked 55th of 77 countries. However, the country has significantly improved the school climate from 2009 to 2018, and this is closely associated with students' sense of well-being.

Measure 15: Inclusive education

The measure does not clarify how Albania will transfer an additional 1,500 rural pupils by 2022 to nearby better-quality schools and it does not allocate any budget to this activity. The plan to increase the number of special education teachers to 1,100 by 2021 is positive. However it does not provide further analysis on the ratio of children in need to assistant teachers. The measure does not address the need to strengthen the inspection function to monitor quality and inclusiveness or outreach to remote and rural areas.

Measure 16: Modernisation of the early childhood education system financing

The measure is not a structural reform strictly speaking. It consists of increasing the budget available to increase the number of teachers by 10% (440) from 4,410 to 4,850. Albania has put this increase into effect since 2019. The goal is to reduce the children-to-teacher ratio. This has the potential to improve the quality of teaching, in particular in major urban centres which suffer from a high children/teacher ratio. However, the measure does not address the need to increase the enrolment rates for children from vulnerable families.

Employment and the labour market

This sector and the relevant reform measure 18 are analysed above in section 4 under key challenge #1.

Social dialogue

Social dialogue remains very weak in both the public and private sectors. Despite the renewed mandate of the National Labour Council, its meetings are not frequent (last meeting in April 2018) and other than the legal committee, specialised technical committees do not meet. No financial resources have been allocated for the proper functioning of NLC and its technical committees. Albania still plans to set up regional tripartite councils. Bipartite social dialogue is underdeveloped. Lastly, the amicable labour disputes resolution system needs further consolidation.

Social protection and inclusion

According to the results of SILC, published for the first time in November 2019, the at-risk-of-poverty rate was 23.4% in 2018, considerably higher than the EU-28 average (17.1%). 38.3% of people lived in severe material deprivation and a further 13.3% in very low-work-intensity households. The welfare system does not provide adequate protection of those in need. Around 70 thousand families receive assistance under the economic aid scheme, but the allowances are low, very far from the at-risk-of-poverty threshold. Indeed, social transfers excluding old age and family pensions reduce the at-risk-of-poverty rate by only 11.3%, against the EU-28 average reduction of 32.3%.

Reform measure 19: Strengthening social protection, and social inclusion measures

This is a complex measure, which includes two components not assessed under key challenge #1 (section 4 above). The first is efficient targeting of the economic aid scheme, for which the proposed result indicator is not adequate. Efficient targeting should be measured by the share of households from the poorest decile/quintile covered by the scheme. The measure also plans progressive application of the bio-psycho-social disability assessment and to offer persons with disabilities combined cash support and social care. This will be difficult given the scarcity of social care services (see assessment under key challenge #1).

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

Area/Sector	2018	2017	2016	EU-28 Average
Energy				
Energy imports dependency (%)	N/A	38.3%	20.2%	55.1% (2017)
Energy intensity: Kilograms of oil equivalent (KGOE) per thousand Euro	217.10	228.07	227.07	117.69
Share of renewable energy sources (RES) in final energy consumption (%)	34.86%	34.46%	35.50%	17.98%
Transport				
Railway Network Density (meters of line per km^2 of land area)	N/A	12.2	N/A	49.9 (2016)
Motorization rate (Passenger cars per 1000 inhabitants)	N/A	147	N/A	507 (2017)
Agriculture				
Share of gross value added (Agriculture, Forestry and Fishing)	21.0%	21.8%	22.6%	1.6%
Share of employment (Agriculture, Forestry and Fishing)	37.4%	38.2%	N/A	4.0%
Utilised agricultural area (% of total land area)	N/A	40.8	N/A	40.0% (2017)
Industry				
Share of gross value added	13.9%	12.8%	22.6%	19.1%
Contribution to employment (% of total employment)	12.7%	12.5%	12.8%	17.3%
Services				
Share of gross value added	54.7%	54.9%	53.2%	73.8%
Contribution to employment (% of total employment)	42.9%	42.4%	40.5%	71.9%
Business Environment				
Rank in WB Doing Business (Source: World Bank)	65	58	90	N/A
Rank in Global Competitiveness Index (Source: World Economic Forum)	76	75	93	N/A
Estimated share of informal economy in GDP (as % of GDP) (Source: IMF)	N/A	N/A	Up to 28.3%	
Research, Development and Innovation				
R&D intensity of GDP (R&D expenditure as % of GDP)	N/A	N/A	N/A	2,12%
R&D expenditure – EUR per inhabitant	N/A	N/A	N/A	656.5€
Digital Economy (TBC)				

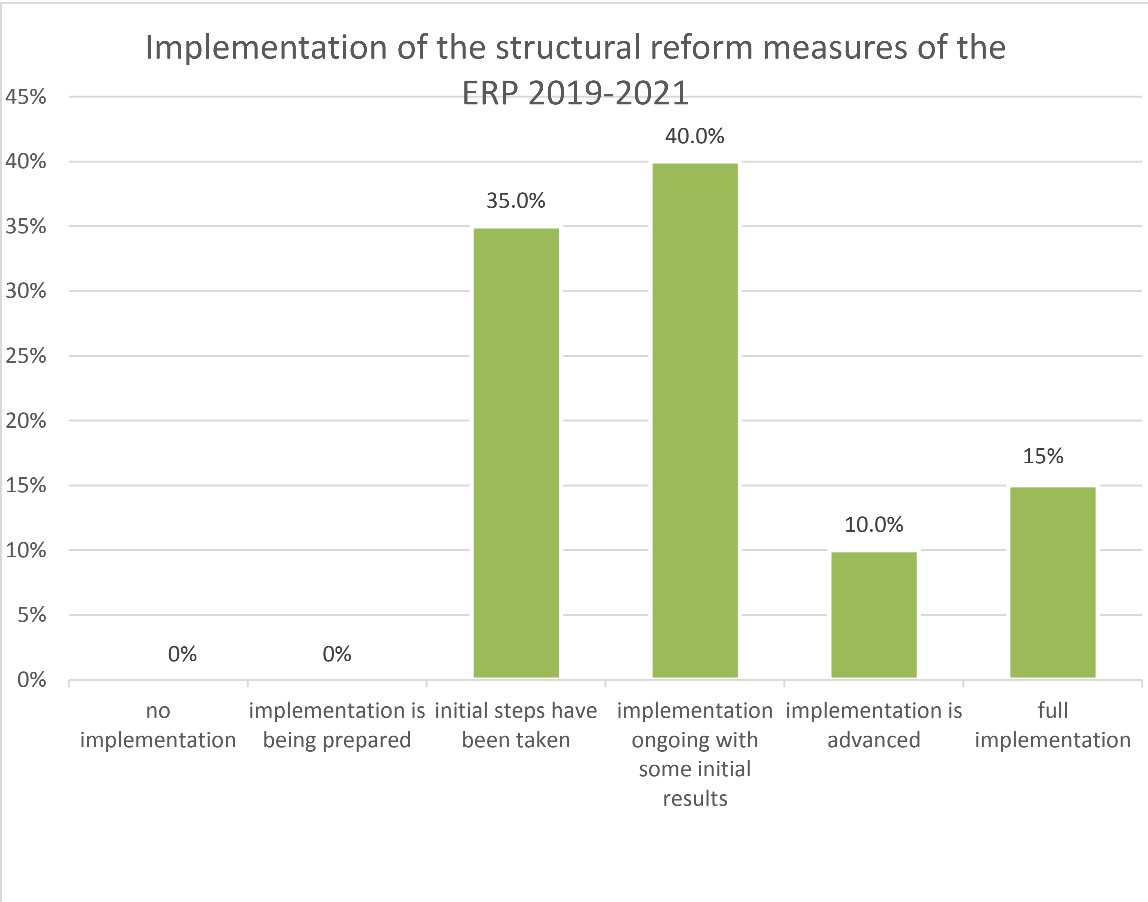
Percentage of broadband penetration (Mobile and fixed) [NB: households]	83%	N/A	N/A	86%
Share of total population using internet [NB: population 16-74]	63%	N/A	N/A	85%
Trade				
Export of goods and services (as % of GDP)	31.7%	31.6%	29.0%	46.2%
Import of goods and services (as % of GDP)	45.4%	46.6%	45.8%	43.0%
Trade balance (as % of GDP)	-20.3%	-22.7%	-22.4%	
Education and Skills				
Early leavers from education and training (% of population aged 18-24)	17.4%	19.6%	19.6%	10.5%
Youth NEET (% of population aged 15-24)	26.5%	25.9%	27.0%	10.5%
Formal child care - children aged less than 3 years (% of total)	N/A	N/A	N/A	35.1%
Individuals' level of digital skills (% of individuals aged 16-74 who have basic or above basic overall digital skills by sex)	N/A	N/A	N/A	57% (2017)
Employment				
Employment Rate (% of population aged 20-64)	65.6%	63.9%	62.1%	73.2%
Unemployment rate (% of labour force aged 15-64)	12.8%	14.1%	15.6%	7.0%
Gender employment gap (Difference between the employment rates of men and women aged 20-64)	16.5%	16.5%	14.4%	11.6%
Social Protection System				
% of population at risk of poverty or social exclusion	49.0%	51.8%	N/A	21.9%
Impact of social transfers (Other than pensions) on poverty reduction	11.03%	12.55%	N/A	33.2%
Self-reported unmet need for medical care (of people over 16)	21.5%	19.0%	N/A	2.0%
Income quintile share ratio S80/S20 for disposable income by sex and age group (Comparison ratio of total income received by the 20% with the highest income to that received by the 20% with the lowest income)	6.98	7.47	N/A	5.17

Sources: EUROSTAT and Albania: Institute of Statistics (INSTAT), unless otherwise indicated.

ANNEX B: PROGRESS WITH STRUCTURAL REFORM MEASURES FROM ERP 2019-2021

Albania made mixed progress in implementing the measures in 2019, with an average score of 3.4 out of 5. Reporting on the implemented activities is good but uneven, with some measures not covered. For some activities, the score provided is high, but overall the information provided gives an adequate description of the level of implementation.

Some measures have been implemented more strongly, such as measure 6 on establishing a fiscal register, measure 8 on reducing red tape, measure 9 on reducing NPLs, measure 15 on inclusive education, and measure 17 on modernising employment services. Implementation is weaker for other measures, such as measure 2 on diversifying energy sources, measure 3 on rehabilitation and construction of the railway segment Durrës-TIA-Tirana, measure 10 on providing a single and transparent investment legal regime and measure on improving the institutional capacity of the research and innovation system.



ANNEX C: COMPLIANCE WITH PROGRAMME REQUIREMENTS

The Albanian government adopted the 2020-2022 ERP and submitted to the Commission on 31 January 2020. Its structure partly follows the Commission guidance note.

Inter-ministerial coordination

The programme was coordinated by the Ministry of Economy and Finance. All relevant line ministries contributed to the drafting. The level of ownership and commitment in line ministries varied but has improved since the previous year.

Stakeholder consultation

Albania disseminated a draft ERP for consultation to international organisations and partners, diplomatic missions to Albania, business associations and chambers of commerce. The ERP includes written comments provided by stakeholders but they are not reflected in the programme itself.

Macro framework

The programme is in line with the medium-term budgetary framework and the Budget Law of Albania. It describes the past economic developments based on the available data. The diverging expectations of Bank of Albania for export growth and the current account development are not integrated in the macro-framework presented by the Ministry of Finance and Economy. Information about implementation of the policy guidance 3 is incomplete. The ERP does not provide an analysis of labour productivity, skills shortages and braindrain and 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. The fiscal policy objectives are not consistent throughout the ERP document and could not take into account the full year's budget outturn for 2019, for which data was made available some time after the submission deadline. The presentation of measures for improving tax collection and fighting informality remain vague as the ERP does not include information about the relevant work on the fiscalisation and the medium-term revenue strategy. There is only limited information on the contributions to and spending by the social insurances. Information on arrears, local-government revenues and expenditure is largely missing. Fiscal data do not meet ESA 2010 requirements 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 COFOG.

Structural reforms

Some of the sections on structural reforms are not in line with the guidance note, and the presentation of the measures is of varying quality. The analysis given of the structural reform challenges is not comprehensive. Table 11 in the Annex is incomplete with significant gaps for some measures. The programme limits the number of measures to 19 though it slightly exceeds the page limit (40 pages) for Section 4. The tables on budgetary impact are more comprehensive than the previous year, but are still only partially complete or do not correspond to the description given. The environmental impact assessment is underdeveloped. Reporting on implementation of the policy guidance on education, employment and social protection and inclusion is almost entirely lacking.

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