



INTERNATIONAL MONETARY FUND
FONDI MONETAR NDERKOMBETAR

Office of the Resident
Representative in Albania

Zyra e Përfaqësuesit të
Përhershëm në Shqipëri

Rruga "Lek Dukagjini" Nr. 3 · Tirana, Albania
Tel: +355 4 230 821 · Fax: +355 4 227 732 · E-mail: imf@albmail.com

IMF Mission—Press Statement, July 23, 2003

The IMF mission that visited Tirana during July 15–23 noted a continuation of macroeconomic stability and further efforts to strengthen the implementation of reforms. Reducing poverty and attaining the projected medium-term 6 percent annual growth depend on the steadfast implementation of the reform agenda devised to improve the environment for private-sector activity. We trust that recent political developments will not weaken the execution of the reforms.

Recent economic developments

Together with our counterparts in government and at the central bank, we assessed recent economic developments and, in particular, the execution of the 2003 budget. We found that the end-June budget-deficit target was met, as lower-than-budgeted revenues were compensated by corresponding expenditure restraint. Revenue shortfalls highlight the need for continued efforts to extend the tax base and strengthen tax and customs administration. The authorities have developed contingency plans to restrain spending in the remainder of 2003 if the shortfalls persist.

On the macroeconomic front, available data are consistent with a modest acceleration of growth from about 4½ percent in 2002 to 6 percent in 2003. Particularly the sales index and export data are encouraging, as are expectations of satisfactory agricultural growth, but downside risks have not disappeared. Headline inflation fell to 3.8 percent in June, ending its gradual increase earlier this year. The monetary environment has stabilized and created room for the Bank of Albania to lower interest rates in both April and July, which the IMF supported. International reserves rose to \$940 million at end-June.

Economic challenges in the months ahead

The authorities' policy program for the remainder of 2003 (and beyond) includes wide-ranging measures to reinforce tax and customs collection and, simultaneously, to improve relations with taxpayers. With respect to the latter objective, key actions include the planned strengthening of the appeals process and the ongoing provision of more comprehensive information on tax regulations and procedures. Budgetary revenues should benefit from the gradual transfer of the collection of social-security contributions to the tax department. An IMF technical assistance mission has just arrived in Tirana to assist in this regard. We welcome planned steps to strengthen budgetary procedures in the context of the 2004 budget, which foresees increased details in programmed investment spending, while ending the practice of earmarking tax revenues.

The main requirement for strengthening the business climate is the reduction of administrative barriers, as identified in the FIAS report. We strongly support efforts toward a rapid implementation of measures, on the basis of a newly developed action plan. Achieving this will require close cooperation among ministries and agencies.

We trust the authorities will soon finalize the process of reconciling inter-enterprise arrears (an end-September performance criterion under the program) and ensure normal commercial relations among public enterprises. We also welcome the ongoing process of rescheduling remaining external arrears.

The mission and the authorities, together with representatives from the World Bank, the IFC, and the EBRD, discussed the next steps to be taken in preparing the privatization of the Savings Bank. We encourage the authorities to proceed with plans to transfer its fiscal functions. Regarding Albtelekom, the remaining financial claims should be fully resolved by end-September to facilitate further steps towards ultimate privatization.

We are pleased that the targets under the action plan for the power sector were met this year. The favorable pluvial conditions during the earlier months have helped reduce electricity shortages, while permitting KESH to improve its financial position and, relative to initial projections, reduce imports. With the introduction of a new electricity subsidy for poor households in 2004, electricity prices should rise further to allow elimination of import subsidies by 2005.

In conclusion, allow me to express our gratitude to the Minister of Finance, the Governor of the Bank of Albania, the Ministers of Economy and Energy, and all of our counterparts for their support and constructive collaboration. We wish the authorities the courage, determination, and persistence necessary to succeed in their ambitious endeavors. Thank you very much.

Hossein Samiei
Mission Chief