IMPORTANT NOTICE

NOT FOR DISTRIBUTION IN, OR INTO, THE UNITED STATES EXCEPT TO QUALIFIED INSTITUTIONAL BUYERS ("QIBs"), AS DEFINED IN, AND IN COMPLIANCE WITH, RULE 144A UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR OTHERWISE THAN TO PERSONS TO WHOM IT CAN LAWFULLY BE DISTRIBUTED.

IMPORTANT: You must read the following before continuing. The following applies to the Prospectus following this page, whether received by e-mail, accessed from an internet page or received as a result of electronic transmission, and you are therefore required to read this carefully before reading, accessing or making any other use of the Prospectus. In accessing the Prospectus, you agree to be bound by the following terms and conditions, including any modifications to them any time you receive any information from us as a result of such access.

The Prospectus has been prepared solely in connection with the proposed offering to certain institutional and professional investors of the securities described herein, which are exempt from registration under the Securities Act. Nothing in this electronic transmission constitutes an offer of securities for sale in the United States.

NOTHING IN THIS ELECTRONIC TRANSMISSION CONSTITUTES AN OFFER OF SECURITIES FOR SALE OR A SOLICITATION OF AN OFFER TO BUY SECURITIES IN ANY JURISDICTION WHERE THE OFFER, SALE OR SOLICITATION IS NOT PERMITTED. ANY SECURITIES TO BE ISSUED HAVE NOT BEEN, AND WILL NOT BE, REGISTERED UNDER THE SECURITIES ACT, OR THE SECURITIES LAWS OF ANY STATE OR OTHER JURISDICTION OF THE UNITED STATES, AND THE SECURITIES MAY NOT BE OFFERED OR SOLD WITHIN THE UNITED STATES, EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS.

THE FOLLOWING PROSPECTUS MAY NOT BE FORWARDED OR DISTRIBUTED, ELECTRONICALLY OR OTHERWISE, TO ANY OTHER PERSON AND MAY NOT BE REPRODUCED IN ANY MANNER WHATSOEVER. ANY FORWARDING, DISTRIBUTION OR REPRODUCTION OF THIS DOCUMENT IN WHOLE OR IN PART IS UNAUTHORISED.

FAILURE TO COMPLY WITH THIS DIRECTIVE MAY RESULT IN A VIOLATION OF THE SECURITIES ACT OR THE APPLICABLE LAWS OF OTHER JURISDICTIONS.

Confirmation of your Representation: In order to be eligible to view the Prospectus or make an investment decision with respect to the securities, you must be either: (i) outside of the United States; or (ii) a QIB (within the meaning of Rule 144A under the Securities Act). The Prospectus is being sent at your request, and by accessing the Prospectus, you shall be deemed to have represented to the Issuer and the Joint Lead Managers (as defined below) that (1) you understand and agree to the terms set out herein; (2) in respect of securities being offered in an offshore transaction pursuant to Regulations S, you are outside the United States, and that, to the extent the Prospectus is delivered via e-mail, the e-mail address to which, pursuant to your request, the Prospectus has been delivered by electronic transmission is not located in the United States for the purposes of Regulation S under the Securities Act; (3) in respect of securities offered and sold in reliance on Rule 144A, you are a QIB; (4) you consent to delivery by electronic transmission; (5) you will not transmit the Prospectus (or any copy of it or part thereof) or disclose, whether orally or in writing, any of its contents to any other person except with the consent of the Joint Lead Managers and the Issuer (each as defined in the Prospectus); and (6) you acknowledge that you will make your own assessment regarding any legal, taxation or other economic considerations with respect to your decision to subscribe for or purchase any of the securities.

The Prospectus is being distributed only to and directed only at (i) persons who are outside the United Kingdom, or (ii) persons who have professional experience in matters relating to investments falling within Article 19(5) of The Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"), or (iii) high net worth entities and other persons falling within Article 49(2)(a) to (d) of the Order, or (iv) those persons to whom it may otherwise lawfully be distributed in accordance with the Order (all such persons collectively being referred to as "**relevant persons**"). The Prospectus is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which the Prospectus relates is available only to relevant persons and will be engaged in only with relevant persons. No other person should rely on it.

Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

You are reminded that the Prospectus has been delivered to you on the basis that you are a person into whose possession the Prospectus may be lawfully delivered in accordance with the laws of the jurisdiction in which you are located and you may not, nor are you authorised to, deliver the Prospectus, electronically or otherwise, to any other person.

The materials relating to the offering do not constitute, and may not be used in connection with, an offer or solicitation in any place where offers or solicitations are not permitted by law. No action has been or will be taken in any jurisdiction by the Joint Lead Managers or the Issuer that would, or is intended to, permit a public offering of the securities, or possession or distribution of the Prospectus or any other offering or publicity material relating to the securities, in any country or jurisdiction where action for that purpose is required. If a jurisdiction requires that the offering be made by a licensed broker or dealer and any underwriter or any affiliate of any underwriter is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by such underwriter or such affiliate on behalf of the Issuer in such jurisdiction.

The attached Prospectus has been sent to you in an electronic form. You are reminded that documents transmitted via this medium may be altered or changed during the process of electronic transmission and consequently none of Banca IMI S.p.A., Citigroup Global Markets Limited or Société Générale (collectively, the "**Joint Lead Managers**") or the Issuer and their respective affiliates, directors, officers, employees, representatives and agents or any other person controlling the Issuer, the Joint Lead Managers or any of their respective affiliates accepts any liability or responsibility whatsoever in respect of any difference between the Prospectus distributed to you in electronic format and the hard copy version available to you on request from the Joint Lead Managers.

THE REPUBLIC OF ALBANIA
€500,000,000 3.500% Notes due 9 October 2025
Issue Price: 99.695%

The issue price of the €500,000,000 3.500% Notes due 9 October 2025 (the "**Notes**") of the Republic of Albania (the "**Issuer**", the "**Republic**" or "**Albania**") is 99.695% of their principal amount.

Unless previously redeemed or cancelled, the Notes will be redeemed at their principal amount on 9 October 2025 (the "**Maturity Date**"). The Notes will bear interest from, and including, 9 October 2018 at the rate of 3.500% *per annum* payable annually in arrear on 9 October in each year, commencing on 9 October 2019. Payments on the Notes will be made in Euros without deduction for, or on account of, taxes imposed or levied by Albania to the extent described under "*Terms and Conditions of the Notes – 8. Taxation*".

This Prospectus has been approved by the Central Bank of Ireland, as competent authority under the Prospectus Directive. "**Prospectus Directive**" means Directive 2003/71/EC, as amended (which includes the amendments made by Directive 2010/73/EU). Such approval only relates to Notes, which are to be admitted to trading on a regulated market for the purposes of Directive 2014/65/EU ("**MiFID II**") and/or which are to be offered to the public in any member state of the European Economic Area. The Central Bank of Ireland only approves this prospectus as meeting the requirements imposed under Irish and European Union ("**EU**") law pursuant to the Prospectus Directive. Application has been made to the Irish Stock Exchange plc trading as Euronext Dublin ("**Euronext Dublin**") for the Notes to be admitted to the Official List (the "**Official List**") and to trading on its main securities market (the "**Market**"). This Prospectus constitutes a prospectus for the purposes of the Prospectus (Directive 2003/71/EC) Regulations 2005 (the "**Prospectus Regulations**") (which implement the Prospectus Directive in Ireland). Reference in this prospectus to being "**listed**" (and all date references) shall mean that such Notes have been admitted to the Official List and have been admitted to trading on the Market. The Market is a regulated market for the purposes of MiFID II.

The Notes are expected to be assigned a rating of B1 by Moody's Investors Service Limited ("**Moody's**") and B+ by Standard and Poor's Credit Market Services Europe Limited ("**S&P**"). Each of Moody's and S&P is established in the EU and registered under Regulation (EC) № 1060/2009 on credit rating agencies (the "**CRA Regulation**"). As such, each of the rating agencies is included in the list of credit rating agencies published by the European Securities and Markets Authority ("**ESMA**") on its website in accordance with the CRA Regulation as of the date of this Prospectus. Any change in the rating of the Notes may adversely affect the price that a purchaser may be willing to pay for the Notes. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating agency.

An investment in the Notes involves certain risks. See "*Risk Factors*".

The Notes have not been, and will not be, registered under the U.S. Securities Act of 1933, as amended (the "**Securities Act**") or with any securities regulatory authority of any state or other jurisdiction and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Notes are being offered (i) in offshore transactions in reliance on, and as defined in, Regulation S (the "**Regulation S Notes**") under the Securities Act, and (ii) in the United States only to persons reasonably believed to be qualified institutional buyers ("**QIBs**"), as defined in Rule 144A under the Securities Act ("**Rule 144A**") in reliance on Rule 144A (the "**Rule 144A Notes**"). Prospective purchasers that are QIBs are hereby notified that the seller of the Notes may be relying on the exemption from the registration requirements of Section 5 of the Securities Act provided by Rule 144A.

The Notes will be offered and sold in registered form and in denominations of €100,000 and integral multiples of €1,000 in excess thereof. The Notes will, on issue, be represented by beneficial interests in two global certificates (the "**Global Certificates**"), one of which (the "**Unrestricted Global Certificate**") will be issued in respect of the Regulation S Notes and the other of which (the "**Restricted Global Certificate**") will be issued in respect of the Rule 144A Notes, and each of which will be registered in the name of a nominee of, and delivered to, a common depositary for Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**"). Beneficial interests in the Restricted Global Certificate will be subject to certain restrictions on transfer; see "*Transfer Restrictions*". Beneficial interests in the Global Certificates will be shown on, and transfers thereof will be effected only through, records maintained by Euroclear and Clearstream, Luxembourg and their participants. It is expected that delivery of the Global Certificates will be made on 9 October 2018 (*i.e.*, the fifth business day following the date of pricing of the Notes, and such settlement cycle being herein referred to as "T+5") or such later date as may be agreed (such date being referred to herein as the "**Issue Date**") by the Issuer and the Joint Lead Managers. Except in the limited circumstances set out herein, certificates in definitive form will not be issued for beneficial interests in the Global Certificates. See "*The Global Certificates*".

Joint Lead Managers

BANCA IMI	**CITIGROUP**	**SOCIÉTÉ GÉNÉRALE CORPORATE & INVESTMENT BANKING**

This Prospectus is dated 5 October 2018

This Prospectus comprises a prospectus for the purposes of Article 5 of the Prospectus Directive. The Republic accepts responsibility for the information contained in this Prospectus. To the best of the knowledge of the Republic (which has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and does not omit anything likely to affect the import of such information.

None of the Joint Lead Managers nor any of their respective affiliates have authorised the whole or any part of this Prospectus, and none of them makes any representation or warranty or accepts any responsibility as to the accuracy or completeness of the information contained in this Prospectus. None of the Joint Lead Managers or any of their directors, affiliates, advisers and agents has made any independent verification of the information contained in this Prospectus in connection with the issue or offering of the Notes, and no representation or warranty, express or implied, is made by any of the Joint Lead Managers or their directors, affiliates, advisers or agents with respect to the accuracy or completeness of such information. Nothing contained in this Prospectus is, is to be construed as, or shall be relied upon as, a representation or warranty, whether to the past or the future, by any of the Joint Lead Managers or their respective directors, affiliates, advisers or agents in any respect.

The Republic has not authorised the making or provision of any representation or information regarding the Republic or the Notes other than as contained in this Prospectus. Any other representation or information should not be relied upon as having been authorised by the Republic or the Joint Lead Managers. The contents of this Prospectus are not, are not to be construed as, and should not be relied on as, legal, business or tax advice, and each person contemplating making an investment in the Notes must make its own investigation and analysis of the creditworthiness of the Republic and its own determination of the suitability of any such investment, with particular reference to its own investment objectives and experience and any other factors, which may be relevant to it in connection with such investment.

Prospective purchasers of the Notes should consult their tax advisers as to the consequences under the tax laws of the country of which they are resident for tax purposes and the tax laws of Albania of acquiring, holding and disposing of the Notes and receiving payments of principal, interest and/or other amounts under the Notes.

Neither the delivery of this Prospectus nor the offering, sale or delivery of any Note shall in any circumstances create any implication that there has been no adverse change, or event reasonably likely to involve any adverse change, in the condition (financial or otherwise) of the Republic since the date of this Prospectus.

This Prospectus does not constitute an offer of, or an invitation to subscribe for or purchase, any Notes.

The distribution of this Prospectus and the offering, sale and delivery of the Notes in certain jurisdictions may be restricted by law. Persons into whose possession this Prospectus comes are required by the Republic and the Joint Lead Managers to inform themselves about and to observe any such restrictions. For a description of certain restrictions on offers, sales and deliveries of the Notes and on the distribution of this Prospectus and other offering material relating to the Notes, see "*Subscription and Sale*" and "*Transfer Restrictions*".

This Prospectus has been prepared by the Republic for use in connection with the offer and sale of the Notes and the admission of the Notes to the Official List and to trading on the Market. The Republic and the Joint Lead Managers reserve the right to reject any offer to purchase Notes, in whole or in part, for any reason. This Prospectus does not constitute an offer to any person in the United States other than any QIB to whom an offer has been made directly by one of the Joint Lead Managers or its U.S. broker-dealer affiliate. Distribution of this Prospectus to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB with respect thereto, is unauthorised, and any disclosure without the prior written consent of the Issuer of any of its contents to any person within the United States, other than any QIB and those persons, if any, retained to advise such QIB, is prohibited.

MIFID II product governance / Professional investors and ECPs only target market – Solely for the purposes of each manufacturer's product approval process, the target market assessment in respect of the Notes has led to the conclusion that: (i) the target market for the Notes is eligible counterparties and professional clients only, each as defined in MiFID II; and (ii) all channels for distribution of the Notes to eligible counterparties and professional clients are appropriate. Any person subsequently offering, selling or recommending the Notes (a "**distributor**") should take into consideration the manufacturers' target market assessment; however, a distributor subject to MiFID II is responsible for undertaking its own target market assessment in respect of the Notes (by either adopting or refining the manufacturers' target market assessment) and determining appropriate distribution channels.

STABILISATION

In connection with the issue of the Notes, Citigroup Global Markets Limited (the "**Stabilisation Manager**") (or any person acting on behalf of the Stabilisation Manager) may over allot Notes or effect transactions with a view to supporting the market price of the Notes at a higher level than that which might otherwise prevail. However, stabilisation may not necessarily occur. Any stabilisation action may begin on or after the date on which adequate public disclosure of the terms of the offer of the Notes is made and, if begun, may cease at any time, but it must end no later than the earlier of 30 days after the issue date of the Notes and 60 days after the date of the allotment of the Notes. Any stabilisation action or over-allotment must be conducted by the Stabilisation Manager (or any person acting on behalf of the Stabilisation Manager) in accordance with all applicable laws and rules.

NOTICE TO PROSPECTIVE INVESTORS IN THE UNITED STATES

THE NOTES HAVE NOT BEEN APPROVED OR DISAPPROVED BY THE U.S. SECURITIES AND EXCHANGE COMMISSION, ANY STATE SECURITIES COMMISSION IN THE UNITED STATES OR ANY OTHER U.S. REGULATORY AUTHORITY, NOR HAVE ANY OF THE FOREGOING AUTHORITIES REVIEWED OR PASSED UPON OR ENDORSED THE MERITS OF THE OFFERING OF THE NOTES OR APPROVED THIS PROSPECTUS OR CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THE INFORMATION CONTAINED IN THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENCE IN THE UNITED STATES.

PRESENTATION OF ECONOMIC AND OTHER INFORMATION

In this Prospectus, unless otherwise specified, references to "**Euro**", "**EUR**" or "**€**" are to the single currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended; references to "**U.S.$**", "**USD**" and "**U.S. Dollars**" are to United States Dollars and references to "**ALL**" or "**Lek**" are to the currency of Albania.

Statistical data appearing in this Prospectus has been extracted or compiled from the records, statistics and other official public sources of information in Albania, and has not been independently checked or verified. The Republic has accurately reproduced such information, and as far as the Republic is aware and able to ascertain, no facts have been omitted which would render the reproduced information inaccurate or misleading. In recent years there have been significant steps taken in Albania to improve the accuracy and reliability of official statistics and to conform statistical methodology to international standards. However, in a transition economy in which there is a substantial amount of unofficial or unreported grey market economic activity, such as the Albanian economy, such statistical data may not accurately reflect current or historic levels of, and trends in, economic activity. In addition, all percentages presented in this Prospectus are subject to rounding and represent approximate figures.

Information included herein that is identified as being derived from information published by Albania or one of its agencies or instrumentalities is included herein on the authority of such publication as a public official document of Albania. All other information herein with respect to Albania is included herein as a public official statement made on the authority of the Ministry of Finance and Economy of Albania.

Data Dissemination

The Republic is a subscriber to the International Monetary Fund ("**IMF**") Enhanced General Data Dissemination System (the "**e-GDDS**"), which is designed to support transparency, encourage statistical development and help create strong synergies between data dissemination and surveillance. The e-GDDs requires subscribing member countries to: (i) commit to using the e-GDDS as a framework for statistical development; (ii) designate a country coordinator; and (iii) prepare metadata that describes (a) current practices in the production and dissemination of official statistics and (b) plans for short- and longer-term improvements in these practices.

Summary methodologies of all metadata to enhance transparency of statistical compilation are also provided on the Internet under the IMF's Dissemination Standards Bulletin Board. The website is https://dsbb.imf.org/egdds/country/ALB/category.

The website and any information on it are not part of this Prospectus.

In addition, the National Statistical Office of Albania ("**INSTAT**") cooperates with the statistical office of the EU, Eurostat, delivering certain national data to Eurostat on a periodic basis. The methodology used by Albania to produce its GDP and other statistics has been harmonised with concepts and definitions used by EU countries, including the European System of Accounts and the System of National Accounts.

Review and Adjustment of Statistics

The Republic's official financial and economic statistics are subject to review as part of a regular confirmation process. Accordingly, financial and economic information may differ from previously published figures and may be subsequently adjusted or revised. In addition, the statistical data appearing in this Prospectus have been obtained from public sources and documents, which may not have been prepared in accordance with the standards of, or to the same degree of accuracy as, equivalent statistics produced by the relevant bodies in other countries. Investors may be able to obtain similar statistics from other sources, but the underlying assumptions, methodologies and, consequently, the resulting data may vary from source to source, and there can be no assurance that the statistical data appearing in this Prospectus are as accurate or as reliable as those published by more developed countries.

FORWARD-LOOKING STATEMENTS

Some of the statements contained in this Prospectus constitute forward-looking statements. Statements that are not historical facts, including statements about the Republic's beliefs and expectations, are forward-looking statements. These statements are based on current plans, objectives, assumptions, estimates and projections. Therefore, undue reliance should not be placed on them. Forward-looking statements speak only as of the date that they are made, and the Republic undertakes no obligation to update publicly any of them in light of new information or future events. Forward-looking statements involve inherent risks and uncertainties. The Republic cautions that a number of important factors could cause actual results to differ materially from those contained in any forward-looking statement. Forward-looking statements include, but are not limited to: (i) plans with respect to implementation of economic policy and the pace of economic and legal reforms; (ii) expectations about EU accession; (iii) expectations about the behaviour of the domestic, Eurozone and global economies; (iv) the outlook for inflation, budget deficit, exchange rates, interest rates, foreign investment, foreign relations, trade and fiscal accounts; and (v) estimates of external debt repayment and debt service.

ENFORCEABILITY OF JUDGMENTS

The terms and conditions of the Notes (the "**Conditions**"), the Notes and the Agency Agreement (as defined in the Conditions) are governed by English law. The Republic will irrevocably submit to, and accept the jurisdiction of, the International Chamber of Commerce (the "**ICC**"), with respect to any suit, action or proceeding arising out of or based on the Notes. In addition, if the conditions set out in Condition 17.3 of the Conditions (and/or the corresponding provisions of the Agency Agreement) are met, the courts of England shall have exclusive jurisdiction to settle any disputes. Recognition of a foreign court decision and a foreign arbitral award in Albania shall be subject to the criteria set out in article 394 of the Albanian Code of Civil Procedure, pursuant to which a foreign court decision will not be recognised if: (i) it was taken by a court acting ultra vires; (ii) it was taken in contravention of the principle of the equality of the parties; (iii) it was taken in contravention of the principle of the rights of a party to be heard; (iv) it was taken in contravention to the public order of the Republic of Albania; (v) an Albanian court has already given a different decision on the same dispute between the same parties; or (vi) an Albanian court has already accepted hearing the same dispute between the same parties prior to the foreign court decision taking a *res judicata* force.

The courts of the Republic of Albania will recognise as valid, and will enforce an arbitral award granted under the Rules of Arbitration of the ICC without re-examination of the merits of the case in accordance with and subject to the provisions of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Albanian law is, however, not clear as regards to the enforceability of foreign court decisions in Albania and the choice of jurisdiction of foreign courts in cases where the Republic is a party. Therefore, the choice of jurisdiction of foreign courts (including English courts) may be held to be invalid by an Albanian court and the submission of the Republic to the exclusive jurisdiction of the English courts might adversely affect the recognition of the judgment by the Albanian courts and it may not be possible to enforce foreign court judgments, including English court judgments, against the Republic without a re-examination of the merits.

The Albanian legislature (the "**Assembly**") has enacted Law № 63 of 20 September 2018 "On the Eurobond to be issued by the Minister of Finance and Economy and the buyback of a portion of the existing Eurobond, approval of exemptions from taxes and fees and provisions for waiver of immunity in the agreements to be signed by the Minister of Finance and Economy". Pursuant to Article 1 of this law, the Republic has waived its sovereign immunity in respect of the Notes, subject to certain exceptions. In particular, the waiver of the sovereign immunity under this law is subject to the exception that a court decision may not be enforced against present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, present or future "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or diplomatic mission of Albania or any agency or instrumentality thereof or any immovable property which falls under provisions of paragraph 1 to 3 of article 3 of Albanian Law № 8743, dated 22 February 2001 "On the state immovable properties". In addition, public domain properties of the Republic of Albania (as defined under Albanian law) are immune from enforcement.

EXCHANGE RATES

The following tables set forth, for the periods indicated, the period end, average, high and low official mid-point rates published by the Bank of Albania, expressed in ALL per €1.00 and ALL per U.S.$1.00:

Lek Per Euro

Year	High	Low	Average[(1)]	Year End
	(Albanian Lek Per Euro)			
2013	140.96	139.48	140.27	140.22
2014	140.54	139.31	139.97	140.11
2015	140.82	137.65	139.74	137.65
2016	138.51	135.28	137.36	135.28
2017	136.57	132.53	134.15	133.25
For the month of				
January 2018	133.99	133.07	133.57	133.44
February 2018	133.42	131.93	132.72	132.23
March 2018	132.05	129.05	131.18	130.44
April 2018	130.40	128.74	129.28	128.74
May 2018	127.92	125.92	126.98	125.92
June 2018	128.34	124.17	125.95	125.93
July 2018	125.92	125.76	125.86	125.76
August 2018	126.27	125.38	125.66	126.27
September 2018 (through 20 September 2018)	126.76	126.39	126.55	126.48

Source: Bank of Albania

Note:

(1) The average of the noon-buying rate on each business day during the relevant period.

Lek Per U.S. Dollar

Year	High	Low	Average[(1)]	Year End
	(Albanian Lek Per USD)			
2013	108.56	102.38	105.68	102.38
2014	113.64	101.35	105.48	113.64
2015	129.97	120.73	125.96	126.64
2016	128.29	121.79	124.15	128.29
2017	128.40	112.10	119.10	112.56
For the month of				
January 2018	111.84	107.19	109.5195	107.26
February 2018	108.81	106.07	107.39	108.12
March 2018	107.18	105.05	106.26	105.80
April 2018	106.62	104.31	105.30	106.28
May 2018	109.62	106.22	107.42	107.61
June 2018	109.43	105.86	107.77	108.13
July 2018	108.39	107.01	107.71	107.27
August 2018	110.91	107.48	108.83	108.19
September 2018 (through 20 September 2018)	109.32	108.09	108.77	108.09

Source: Bank of Albania

Note:

(1) The average of the noon-buying rate on each business day during the relevant period.

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OVERVIEW

The following is an overview of certain information contained in this Prospectus. It does not purport to be complete and is qualified in its entirety by the more detailed information appearing elsewhere in this Prospectus. Prospective investors should also carefully consider the information set out in the section entitled "*Risk Factors*" in this Prospectus prior to making an investment decision. See "*The Republic of Albania*", "*The Albanian Economy*", "*Balance of Payments and Foreign Trade*", "*Public Debt*", "*Monetary and Financial System*" and "*Public Finances*" for a more detailed description of the Issuer.

Overview of the Republic

Albania is located in the southwestern region of the Balkan Peninsula in southeastern Europe. Albania shares a border with Greece to the south and southeast, Macedonia to the east, Kosovo to the northeast and Montenegro to the northwest. Western Albania lies along the Adriatic and Ionian Sea coastlines. The Adriatic Sea separates Albania from Italy via the Strait of Otranto. Albania covers an area of approximately 28,748 square kilometers. Its territory is predominantly mountainous but is relatively flat along its coastline with the Adriatic Sea.

Albania is a self-proclaimed secular state, which, pursuant to Article 10 of the Albanian constitution (the "**Constitution**"), allows freedom of religion. According to statistics published by the United Nations Statistics Division in 2013, the predominant religions in Albania are Islam (estimated to comprise 56.7% of the population), including Sunni Islam and members of the Bektashi Order, Roman Catholic (10.0%) and Albanian Orthodox (6.7%).

The Constitution is the highest law in Albania and establishes the basic institutions of a democratic state. The Constitution provides for three branches of government: the legislative branch, the executive branch and the judicial branch. Legislative power is vested in the unicameral Assembly, which consists of 140 members, all of whom serve four-year terms. The executive branch of the Government is made up of the Council of Ministers, which is headed by the Prime Minister. The judiciary consists of a Constitutional Court, a Supreme Court and multiple appeal and district courts. The judiciary is currently undergoing a comprehensive and thorough transitional re-evaluation process to increase its transparency, accountability and independence.

Albania's real gross domestic product ("**GDP**") grew by 1.0% in 2013, 1.8% in 2014, 2.2% in 2015, 3.4% in 2016 and 3.8% in 2017. According to IMF projections, Albania's real GDP is forecasted to grow by 3.7% in 2018 and 3.8% in 2019. Albania has a large informal economy, which, according to figures published by INSTAT and academic reports, represented approximately 28% of GDP in 2016.

Albania's economy is small and thus largely dependent on external trade, particularly imports. In addition, Albania has historically had a current account deficit, reflecting a large trade deficit resulting from its dependence on imported goods, largely financed by private transfers (principally remittances from expatriate workers, particularly in Greece and Italy). Albania's current account deficit between 2007 and 2017 averaged 10.8% of nominal GDP.

Public debt in Albania is comprised of central Government debt and Government-guaranteed debt, both external and domestic, as well as local government domestic debt. Public debt decreased to an estimated 65.2% of GDP as at 30 June 2018, from 70.0% of GDP as at 31 December 2017 and 72.4% of GDP as at 31 December 2016.

Total budget sector revenues have grown in each of the past five years between 2013-2017 from ALL 327.2 billion in 2013 to ALL 430.4 billion in 2017, an aggregate increase of 31.5% over the period. The overall fiscal deficit was ALL 31.0 billion in 2017 (2.0% of GDP), as compared to ALL 26.7 billion in 2016 (1.8% of GDP), ALL 58.2 billion in 2015 (4.1% of GDP), ALL 72.1 billion in 2014 (5.2% of GDP) and ALL 66.9 billion in 2013 (5.0% of GDP).

Albania is in the process of applying for full membership of the EU. Since becoming a candidate for EU accession in June 2014, Albania has implemented a wide range of electoral, judicial, administrative and economic reforms to align its laws and government practices with those of the EU, to meet the preconditions for commencement of accession negotiations. In April 2018, the European Commission published its 2018 Albania report, which concluded that significant improvements had been made in respect of each of the five key EU integration priorities but that further reform efforts were required prior to the opening of formal accession negotiations. In June 2018, the General Affairs Council of the EU agreed to work with Albania on a path towards opening accession negotiations in June 2019.

Overview of the Terms and Conditions of the Offering

Capitalised terms not otherwise defined in this overview have the same meaning as in the Conditions. See "Terms and Conditions of the Notes".

Issuer	The Republic of Albania (acting through its Minister of Finance and Economy).
Joint Lead Managers	Banca IMI S.p.A., Citigroup Global Markets Europe Limited and Société Générale.
Issue Price	99.695% of the principal amount of the Notes.
Notes	€500,000,000 3.500% Notes due 9 October 2025.
Issue Date	9 October 2018.
Maturity Date	9 October 2025.
Interest on the Notes	3.500% *per annum*.
Interest Payment Dates.........................	The Notes bear interest on their outstanding principal amount from and including 9 October 2018 at the rate of 3.500% *per annum*, payable annually in arrear on 9 October in each year (each an "**Interest Payment Date**"). The first payment (for the period from and including the Issue Date to but excluding 9 October 2019 and amounting to €35.00 per €1,000 principal amount of Notes) shall be made on 9 October 2019. See "*Terms and Conditions of the Notes – 5. Interest*".
Yield..	As at the Issue Date and on the basis of the issue price, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 3.550% *per annum*.
Status	The Notes will constitute direct, general, unconditional and (subject to the provisions of the Negative Pledge) unsecured obligations of the Issuer, which will rank *pari passu,* without preference among themselves, with all other unsecured External Indebtedness of the Issuer, from time-to-time outstanding, *provided, further,* that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa. See "*Terms and Conditions of the Notes – 3. Status*".
Redemption..	Unless previously redeemed or purchased and cancelled, the Issuer will redeem the Notes at their principal amount on the Maturity Date. See "*Terms and Conditions of the Notes – 7. Redemption and Purchase*".

Negative Pledge .... The Conditions will provide that, so long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Security Interest, other than a Permitted Security Interest, over any of its property or assets to secure Public External Indebtedness of the Issuer or any guarantee of the Issuer in respect of Public External Indebtedness, unless (i) the Notes are secured equally and rateably with such Public External Indebtedness or (ii) the Notes have the benefit of such other security, guarantee, indemnity or other arrangement as shall be substantially equivalent.

See "*Terms and Conditions of the Notes – 4. Negative Pledge*".

Events of Default .... The Conditions will permit the acceleration of the Notes following the occurrence of certain events of default.

Holders of not less than 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and repayable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest on the date the Issuer receives such written notice of the declaration.

If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to such declaration of acceleration is or are cured following any such declaration and that such holders wish the declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the declaration shall be withdrawn and shall have no further effect. No such withdrawal shall affect any other or any subsequent Event of Default or any right of any relevant Noteholder in relation thereto.

See "*Terms and Conditions of the Notes – 10. Events of Default*".

Denominations....................................... The Notes will be offered and sold, and may only be transferred, in minimum principal amounts of €100,000 and integral multiples of €1,000 in excess thereof.

Form of Notes .... The Notes will be in registered form, without interest coupons attached.

Notes offered and sold in reliance upon Regulation S will be represented by beneficial interests in the Unrestricted Global Certificate, and Notes offered and sold in reliance upon Rule 144A will be represented, upon issue, by beneficial interests in the Restricted Global Certificate, each of which will be registered in the name of a nominee of a common depositary for Euroclear and Clearstream, Luxembourg.

Except in limited circumstances, certificates for the Notes in definitive form will not be issued to investors in exchange for beneficial interests in the Global Certificates. See "*The Global Certificates*".

Taxation and Additional Amounts .... All payments in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Albania or any political subdivision or any authority thereof or therein having power to tax (collectively, "**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts which would have been receivable in respect of the Notes in the absence of the withholding or deduction, subject to certain exceptions set out in "*Terms and Conditions of the Notes – 8. Taxation*".

Meetings of Noteholders .... The Conditions contain provisions for calling meetings of Noteholders and, in certain circumstances, holders of other debt securities of the Issuer, to consider matters affecting their interests generally. These provisions permit defined majorities (which may, in certain circumstances, be formed of holders of debt securities of the Issuer other than the Notes) to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting and Noteholders who voted in a manner contrary to the majority. See "*Terms and Conditions of the Notes – 13 Meetings of Noteholders; Written Resolutions*".

Modification and Amendment .... The Conditions contain a provision permitting the Notes, the Conditions, the Agency Agreement or the Deed of Covenant to be amended without the consent of the Noteholders to correct a manifest error or to make any modification which is of a formal, minor or technical nature or which is not materially prejudicial to the interests of the Noteholders. See "*Terms and Conditions of the Notes – 13.8. Manifest error, etc.*".

Use of Proceeds .... The net proceeds of the issue of the Notes will be used by the Issuer to repurchase and cancel up to €200 million of its outstanding €450,000,000 5.75% Notes due 2020 (the "**2020 Notes**") as part of a cash tender offer (the "**Tender Offer**") being conducted by the Issuer concurrently with the issuance of the Notes, and for general budgetary support, including allocations to pre-finance the 2019 and 2020 budgets and the repayment of indebtedness.

See "*Use of Proceeds*".

Ratings .... The Notes are expected to be assigned a rating of B1 by Moody's and B+ by S&P. Each of Moody's and S&P is established in the EU and registered under the CRA Regulation. A rating is not a recommendation to buy, sell or hold securities and may be subject to revision, suspension, reduction or withdrawal at any time by the assigning rating organisation.

Listing and Admission to Trading .... Application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Market.

Governing Law .... The Notes, the Agency Agreement and the Deed of Covenant (each as defined in the Conditions), and any non-contractual obligations arising out of or in connection with the Notes, the Agency Agreement and the Deed of Covenant, will be governed by, and construed in accordance with, English law.

Transfer Restrictions .... The Notes have not been and will not be registered under the Securities Act or any U.S. state securities laws. Consequently, the Notes may not be offered, sold or resold in the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act and applicable U.S. state securities laws.

See "*Transfer Restrictions*".

Fiscal Agent, Paying Agent and Transfer Agent .... Citibank, N.A., London Branch.

Registrar .... Citigroup Global Markets Europe AG.

Security Codes for the Regulation S Notes	ISIN:	XS1877938404
	Common Code:	187793840
	CFI:	DBFNFR
	FISN:	QEVERIA SHQIPET/EUR NT 20260324 RES
Security Codes for the Rule 144A Notes	ISIN:	XS1877938669
	Common Code:	187793866
	CFI:	DBFNFR
	FISN:	QEVERIA SHQIPET/EUR NT 20260324 RES

RISK FACTORS

Investment in the Notes involves a high degree of risk. Prospective investors should carefully consider the following risk factors, together with the other information set out in this Prospectus, before making a decision to invest in the Notes and should understand that the risks set forth below could, individually or in the aggregate, have a material adverse effect on the Issuer's ability to repay principal and make payments of interest on the Notes or otherwise fulfil its obligations under the Notes. Certain of these factors are contingencies, which may or may not occur, and the Issuer is not in a position to express a view on the likelihood of any such contingency occurring. Additional risks and uncertainties not currently known to the Issuer or that the Issuer currently deems to be immaterial may also materially affect the Issuer's economy, fiscal results and indebtedness and its ability to fulfil its obligations under the Notes. In any such case, investors may lose all or part of their investment in the Notes. Words and expressions defined in "Terms and Conditions of the Notes" or elsewhere in this Prospectus have the same meanings in this section.

Risks relating to Albania

An investment in a developing country, such as Albania, is subject to substantially greater risks than an investment in a more developed country

An investment in a developing country, such as Albania, is subject to substantially greater risks than an investment in a country with a more developed economy and more developed political and legal systems. These greater risks include economic instability caused by factors such as a narrow export base, reliance on imports of energy and other key inputs, fiscal and current account deficits, reliance on foreign direct investment ("**FDI**"), high unemployment and frequent and significant potential changes in the political, economic, social, legal and regulatory environment, as well as the possibility that actions of the current government of the Republic (the "**Government**") may be challenged by future governments. Although significant progress has been made in reforming Albania's economy and political and legal systems since the end of Communist rule in 1992 and in line with Albania's objective to become a full member of the EU, Albania's economy remains characterised by certain attributes, such as concentration in a number of key industries, reliance on imports and FDI, trade and current account deficits and high unemployment, any or all of which may adversely impact Albania's economic stability. In addition, Albania's legal infrastructure and regulatory framework are still developing. Consequently, an investment in Albania carries risks that are not typically associated with investing in more mature markets. Investors should exercise particular care in evaluating the risks involved and must decide for themselves whether, in light of those risks, such investment is appropriate for them. Generally, investments in developing countries, such as Albania, are only suitable for sophisticated investors who can fully appreciate and bear the significance of the risks involved.

Investment in the Notes could also be adversely affected by negative economic or financial developments in other countries, particularly neighbouring and regional countries (including Greece, Italy and Turkey). Adverse economic developments in one or more of the countries that comprise Albania's major trading partners (many of which are in the EU, including Greece and Italy), or questions about their ability to repay sovereign debt or the stability of their banking systems, could adversely affect the Albanian economy and Albania's ability to repay principal and make payments of interest on the Notes.

In recent years, concerns about credit risk (including that of sovereigns) and the large sovereign debts and/or fiscal deficits of several European countries (including Portugal, Italy, Ireland, Cyprus, Greece and Spain) have caused significant disruptions in international capital markets. In particular, the Greek financial crisis, which began in June 2015, and subsequent bailout, led to local withdrawals from subsidiaries of Greek banks operating in Albania. The occurrence of similar events in the future could adversely affect the Albanian economy directly, as well as the key trading partner markets for Albania's goods and services and the global financial markets.

On 23 June 2016, the United Kingdom held a referendum to decide on its continued membership of the EU and determined to leave the EU ("**Brexit**"). The procedure for withdrawing from the EU was triggered by the United Kingdom government on 29 March 2017 and the United Kingdom government and the EU are negotiating the United Kingdom's exit. The implications of Brexit and the outcome of the negotiations with respect to Brexit are not yet known. The uncertainty created by the Brexit process could lead to heightened levels of market volatility both in the EU and globally, which could directly affect Albania and Albania's efforts to join the EU.

Regional and international economic disruptions have led to reduced liquidity and increased credit risk premiums for certain market participants and have resulted in a reduction of available financing. The default, or a significant decline in the credit rating, of one or more sovereigns or financial institutions, or the departure of one or more countries from the EU and/or Euro zone, could cause severe stress in the financial system generally and could adversely affect the global financial markets, which could in turn adversely affect the value of investments in Albania, including the Notes.

In addition, monetary and trade policy decisions taken in the United States and other large economies may also have a significant impact on international economic and financial conditions, which may, in turn, have an adverse impact on developing countries, such as Albania. For example, decisions of the Federal Reserve Bank in the United States to increase policy interest rates have contributed to the increase in U.S. Dollar interest rates and the appreciation of the U.S. Dollar against other currencies, which have, in turn, contributed to volatility in investor sentiment in relation to emerging markets. Uncertainty resulting from developments in international trade policy, in particular with respect to international trade between the United States and China, may have a further adverse impact on international economic and financial conditions.

Increased global terrorism risks may have an impact on Albania

Albania is also subject to risks relating to increased global terrorism, including the actions of the so-called "Islamic State". According to press reports, a number of Albanian nationals, as well as nationals from other Balkan states, have reportedly joined the Islamic State and other terrorist organisations. If these nationals reside in, or were to return to, Albania, they may pose a security threat, which may, in turn, delay or complicate discussions with the EU regarding Albania's candidacy for EU accession.

Due to the on-going conflicts in Syria, European countries have witnessed an influx of refugees since 2015. In 2017, 1,047 migrants were intercepted and pre-screened at the Albanian border, as compared to 915 in 2016. In the two months ended 28 February 2018, 661 migrants were intercepted and pre-screened at the border, as compared to 144 in the corresponding period in 2017. According to statistics published by the U.N. High Commissioner for Refugees (the "**UNHCR**") 286,700 asylum applications have been made by migrants arriving in Europe in the first six months of 2018, as compared to 819,000 in 2017, 1,323,000 in 2016 and 1,471,000 in 2015. A number of migrants that have arrived in Albania are seeking passage to the EU. While the influx of refugees in the EU has not, to date, had a significant impact on Albania, migrant arrivals in Albania have increased and there can be no assurance that the number of persons seeking asylum in Albania will not continue to increase in the future. Any such increase could cause economic, political and social strains.

Any "contagion" effect in response to events occurring in one emerging market or region may adversely affect the political and economic situation in Albania

Investors' reactions to events occurring in one emerging market or region sometimes appear to demonstrate a "contagion" effect, in which an entire region or class of investment is disfavoured by investors. If such a "contagion" effect occurs, Albania could be adversely affected by negative economic, security or financial developments in other emerging market countries or regions.

Albania has been adversely affected by "contagion" effects in the past, including global events, such as the Eurozone crisis and the global financial crisis. No assurance can be given that it will not be affected by similar events in the future.

Since mid-August 2018, the Turkish Lira has significantly declined against the U.S. Dollar and other currencies, as Turkey has adopted new economic and political policies and faced U.S. sanctions. These events have triggered investor concerns and calls for changes in the Turkish central bank's monetary policy. On 29 August 2018, in response to the depreciation in the Turkish Lira, Moody's downgraded 20 Turkish financial institutions. In September 2018, the Turkish central bank raised its benchmark interest rate to 24%.

Since April 2018, investor concerns have risen in response to the significant decline in the value of the Argentine Peso against the U.S. Dollar and continued rise of inflation rates in Argentina. In response, the Argentinian government has announced austerity measures, including increased taxes on exports and the closer of a number of government ministries, and Argentina's central bank has raised interest rates to 60%. Argentina has also sought support in the form of a U.S.$50 billion loan from the IMF.

There can be no assurance that Albania will not be affected by the negative economic conditions in Turkey or Argentina, or elsewhere, if a "contagion" effect occurs.

Albania may not become a member of the EU in the near to medium term or at all

Albania is in the process of applying for full membership of the EU. Since becoming a candidate for EU accession in June 2014, Albania has implemented a wide range of electoral, judicial, administrative and economic reforms to align its laws and government practices with those of the EU, to meet the preconditions for commencement of accession negotiations and otherwise to satisfy the criteria set forth by the European Council in Copenhagen 1993. Such reforms and other actions needed to meet accession criteria include stability of institutions guaranteeing democracy, the rule of law, human rights and respect for, and protection of , minorities; the existence of a functioning market economy, as well as the capacity to cope with competitive pressure and market forces within the EU; and the ability to take on the obligations of membership, including adherence to the aims of the political, economic and monetary union. In April 2018, the European Commission published its 2018 report on Albania, which concluded that significant improvements had been made in respect of each of the five key EU integration priorities but that further reform efforts were required prior to the opening of formal accession negotiations. In June 2018, the General Affairs Council of the EU agreed to work with Albania on a path towards opening accession negotiations in June 2019. There can be no assurance, however, that formal negotiations will be opened on that date.

While Albania is in the process of implementing the necessary structural and other reforms to commence accession negotiations, there can be no assurance that Albania will be able to achieve the required conditions to enter into negotiations and, thereafter, accede to the EU in any given time period or at all. Accession is not expected in the short-term.

In particular, all key decisions in respect of Albania's potential accession to the EU will require a positive unanimous decision of all EU Member States. Any increase in anti-enlargement sentiment in the EU, in particular due to the simultaneous application of five other Western Balkan states besides Albania (Serbia, Montengro, Macedonia, Bosnia and Herzegovina and Kosovo), any deterioration of the security situation in Albania or the region or current or historic debt problems experienced by certain EU member states, or any prospective changes in EU laws, may also cause delays in Albania's accession process. In addition, the impact of Brexit on Albania's potential accession to the EU cannot currently be determined.

Albania is also subject to the EU's policies in respect of risks relating to increased global terrorism, including the actions of the so-called "Islamic State", and migration to the EU, which may affect accession negotiations. See "—*Increased global terrorism risks may have an impact on Albania*".

Delays in the EU accession process due to Albania's inability to meet harmonisation criteria or a change in EU entry criteria, or the opposition of, or disputes with. EU member states, may adversely impact Albania's economic development and, accordingly, affect its ability to repay principal and make payments of interest on the Notes.

Albania may not succeed in implementing its proposed economic, financial and other reforms, policies, initiatives and projects, which may adversely affect the Albanian economy and Albania's ability to repay principal and make payments of interest on the Notes

Since the overthrow of the Communist government in 1992, Albania has undergone substantial political transformation from a centrally-planned state with a Communist government to an independent sovereign democracy. In parallel with this transformation, Albania has been pursuing a programme of economic structural reforms with the objective of developing a market-based economy through the privatisation of state enterprises and deregulation and diversification of the economy. While Albania has made substantial progress in developing a functioning market-based economy, establishing economic and institutional infrastructure to a Western European standard requires further effort and investment over a number of years, and the timing of the completion of such infrastructure is uncertain.

The implementation of needed reforms, including programmes to support further economic growth, development and diversification, depends on significant and sustained political commitment and social consensus in favour of the reforms. Notwithstanding the substantial progress in recent years and Government policies of implementing further reforms and supporting diversification of the economy, there can be no assurance that the economic and financial initiatives, reforms and policies described in this Prospectus will continue, will be pursued or commenced, will not be reversed or will achieve their intended aims in a timely manner or at all. In addition, from time-to-time, Albania has experienced political tensions, resulting in parliamentary boycotts by opposition parties of the Assembly, as well as other challenges to the political process and difficulties in reaching consensus. Most recently, in February 2017, the Democratic Party of Albania (the "**DPA**") began a four-month boycott of the Assembly, resulting in the postponement of the 2017 parliamentary elections.

Perceived capacity constraints to economic growth, in particular in the infrastructure and tourist sectors, and the lack of labour force with a sufficient skill set may also impact the Government's ability to implement its reform programme and for such reforms to be successful.

There can be no assurance that the Government will be able to raise sufficient funding to support its reform programme. In particular, certain projects are reliant on obtaining EU or multilateral funding or for PPPs to be entered into. Changes in support from the EU and multilateral bodies, and the ability to enter into PPPs with attractive terms, to fund key reform projects could adversely effect the Albanian economy, if funding is needed to be sourced from elsewhere, or result in projects not being implemented.

Any failure of the Government to implement proposed economic, financial and other reforms and policies, or a change in the political or social consensus relating to these reforms and policies, may adversely affect the growth and development of the Albanian economy and, as a result, have a material adverse effect on Albania's capacity to repay principal and make payments of interest on the Notes.

Albania's economy is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on Albania's economic growth and its ability to service its public debt

Albania's economy is small and thus largely dependent on external trade, particularly imports. Albania's export base remains small, narrow and undiversified, due mainly to a lack of price competitiveness and poor infrastructure.

In addition, Albania has historically had a current account deficit, reflecting a large trade deficit resulting from its dependence on imported goods, largely financed by private transfers (principally remittances from expatriate workers, particularly in Greece and Italy) and FDI.

The rate of future economic growth and the ability to fund the current account deficit is, accordingly, dependent on effecting changes in the structure of Albania's economy and maintaining Albania's attractiveness to foreign investors and institutions. Albania is largely reliant on FDI flows in order to finance investment and to drive changes in its economic structure. FDI flows have, accordingly, fluctuated based on the funding levels required for various projects. Net FDI was €969.8 million (representing 8.3% of nominal GDP) in 2017, as compared to €936.4 million in 2016 and €818.4 million in 2015, reflecting an increase of 3.6% in 2017 and 14.4% in 2016. Net FDI grew at a faster pace in 2016 than 2017, primarily due to large energy sector projects, including the Trans-Adriatic Pipeline ("**TAP**") project, being expanded and requiring intensive funding. Such projects did not require the same levels of funding in 2017. In addition, there are no current projects underway that are planned to require the same level of funding in future periods. Accordingly, there can be no assurance that future FDI levels will reach the levels observed in 2016 or 2017.

Albania's ability to attract FDI is based not only on international perceptions of the overall status of structural reforms and economic conditions in Albania, but also perceptions of broader regional stability and economic prospects, as well as global macro-economic conditions more generally. Accordingly, Albania's economy is vulnerable to deterioration in global economic conditions and external shocks, particularly those affecting economic trends in the EU and its other major trading partners. Such conditions have included the global financial and economic crisis that started in 2008 and the subsequent sovereign debt crisis and the accompanying impact on economic conditions in Albania's major trading partners and sources of inbound FDI, which led to a decline in growth in Albania's GDP, as well as, more recently, concerns over the condition of the Greek economy, other Southern European economies and European economic conditions more generally, which adversely impacted the willingness of investors to invest in the region as a whole, including in Albania. In particular, a significant decline in the economic growth of Albania's trading partners, including Greece, Italy and other EU member states and Turkey could have an adverse effect on demand for exports from Albania and Albania's balance of trade and, as a result, adversely affect Albania's economic growth. These economic factors could have a material adverse effect on Albania's ability to repay principal and make payments of interest on the Notes.

Albania has, and expects to continue to have, a high level of public debt in order to finance its budget deficit, and Albania may not be able to service its public debt and, as a result, may not be able to repay principal and make payments of interest on the Notes

Albania faces fiscal risks. The Government has had a budget deficit in each of the last five years, and it does not expect to have a balanced budget for the foreseeable future. Fiscal risks also arise from Albania's pension system, which is financed on a pay-as-you-go basis, whereby state benefits are paid out of contributions from the current workforce and employers.

Over the past five years, public debt, as a percentage of GDP, has increased from 65.6% as at 31 December 2013 to 70.1% as at 31 December 2014 and 73.1% as at 31 December 2015, before decreasing to 72.4% as at 31 December 2016, 70.0% as at 31 December 2017 and 65.2% as at 30 June 2018. While the Government aims to reduce the ratio of public debt to GDP to below 60% by 2021, there can be no assurance that this target will be met. In 2018, the Government has budgeted for the budget deficit to be 2.0% of GDP and the public debt to GDP ratio to be 68.7% of GDP at the end of the year. Relatively high levels of indebtedness through continued borrowing could negatively impact Albania's credit rating and could have a material adverse effect on the Albanian economy and, as a result, on Albania's capacity to repay principal and make payments of interest on the Notes.

In addition, any deterioration in financing conditions as a result of market, economic or political factors, which may be outside Albania's control, may adversely affect Albania's ability to implement its economic strategy and reforms and jeopardise Albania's ability to repay or refinance its existing debt and to repay principal and make payments of interest on the Notes.

A deterioration in the level of support by its multilateral and bilateral creditors could have a material adverse effect on Albania

As at 30 June 2018, multilateral and bilateral debt accounted for 60.5% and 23.1% of Albania's external debt, respectively. Albania expects to rely on multilateral and bilateral support to provide a significant portion of its public and external financing requirements in the coming years. Changes in the level of support by Albania's multilateral and bilateral creditors or changes in the terms on which such creditors provide financial assistance to Albania or fund new or existing projects could have a significant adverse effect on the financial position of Albania.

In recent years, Albania has also entered into loans that have been granted on a concessional basis or that benefit from guarantees issued by the World Bank and other international financial institutions. For example, in 2014, the Government entered into an arrangement with the IMF under the Extended-Fund Facility ("**EFF**") for Albania in support of the Government's reform programme. The final disbursement under the EFF was made in February 2017. See "*Public Debt—Relationships with Multilateral Financial Institutions"*. Access to such concessional rate or guaranteed funding reduces Albania's borrowing costs, as the interest rates in respect of such funding are generally lower than Albania could achieve without such credit support. There can be no assurance, however, that funding at such lower rates will be available in the future; in general, the availability of concessional rate funding has decreased in recent years. In particular, multinational agencies often require implementation of economic and social policies and achievement of certain policy targets, which Albania may be unwilling or unable to satisfy. If Albania is unable to obtain such funding in the future or otherwise borrow at an acceptable cost, it could have a material adverse effect on the Albanian economy and, as a result, on Albania's capacity to repay principal and make payments of interest on the Notes.

The Albanian banking sector has a high level of non-performing loans, as well as significant lending in foreign currency

Reforms efforts in the Albanian banking sector in recent years been focused on measures to reduce non-performing loans ("**NPLs**"), through both write-offs of NPLs and, more recently, credit restructuring operations. While such reform measures have reduced NPLs from the levels recorded following the global financial crisis and Eurozone crisis, NPL levels remain high. As at 30 June 2018, NPLs accounted for 13.3% of the banking sector loan portfolio, as compared to 13.2% as at 31 December 2017 and 18.2% as at 31 December 2016. Further reform efforts, including implementation of a new bankruptcy law, will need to continue to focus on the reduction of NPLs. Any reversal in the trend of declining NPLs or other asset quality deterioration could cause banks to fail to be in compliance with applicable regulatory requirements, including capital adequacy requirements. This could, in turn, cause banks to reduce lending activities or result in a loss of depositor confidence in the Albanian banking sector.

In addition, the majority of loans by banks in Albania are in foreign currencies, primarily Euros, amounting to 56.5% (including 46.4% in Euros) of total loans as at 30 June 2018. This high level of foreign currency lending increases banking sector risks and requires high capital and reserves in order to protect against unfavourable exchange rate movements and the credit risks of unhedged loan portfolios. In particular, the high Euroisation of the banking sector has increased the vulnerability of the banking sector and led the Ministry of Finance and Economy, the Bank of Albania and the Albanian Financial Supervisory Authority (the "**AFSA**") to adopt a de-Euroisation policy (the "**de-Euroisation policy**"), with the aim of improving the transmission of monetary policy and reducing risks to financial stability. Measures introduced in furtherance of this de-Euroisation policy include increasing the mandatory reserve rate for foreign currency liabilities (and reducing the mandatory reserve rate for Lek liabilities), increasing the minimum regulatory requirement for the value of liquid assets in foreign currency and raising borrowers' awareness of the risks of foreign currency borrowing. There can be no assurance, however, that this policy or other reform measures will be successful in decreasing the majority of foreign currency lending in the Albanian banking system.

As a result of the high proportion of foreign currency lending, a depreciation of the Lek against the relevant lending currencies could have a material and adverse effect on the credit quality of the loan portfolio of the Albanian banking sector.

Any of the foregoing may have an adverse effect on the growth of the Albanian economy, which, in turn, may adversely affect Albania's ability to repay principal and make payments of interest on the Notes.

Albania may be adversely affected by fluctuations in the value of the Lek against the Euro and other major currencies

The Bank of Albania maintains a flexible exchange rate policy, with limited market interventions and whereby the value of the Lek against foreign currencies is generally determined in the market. Accordingly, other than in the limited circumstances where the Bank of Albania intervenes, the ability of the Government and the Bank of Albania to influence fluctuations in the value of the Lek depends on a number of political and economic factors, including the ability to control inflation, the availability of foreign currency reserves and FDI inflows, which are outside of the control of the Government or the Bank of Albania. Albania is also a net importer of goods.

Any significant depreciation of the Lek against the Euro, the U.S. Dollar or other major currencies would increase the costs of imports and Albania's debt service and could have an effect on Albania's ability to repay its debt denominated in foreign currencies, including amounts due in Euros in respect of the Notes. In addition, a significant depreciation of the Lek against the Euro, the U.S. Dollar or other foreign currencies may result in reduced revenues and outflows of capital from the Lek, each of which could have a material adverse effect on the Albanian economy and Government revenues, which, in turn, may adversely affect Albania's ability to repay principal and make payments of interest on the Notes.

Any adverse change in Albania's credit ratings may adversely affect the Albanian economy and Albania's ability to repay principal and make payments of interest on the Notes

The long-term foreign-currency debt of Albania is currently rated B1 with a stable outlook by Moody's and B+ with a stable outlook by S&P. There can be no certainty that a credit rating will remain for any given period of time or that a credit rating will not be downgraded or withdrawn entirely by the relevant rating agency if, in its judgment, circumstances in the future so warrant. Other than pursuant to Article 16 of the Prospectus Directive, Albania has no obligation to inform the Noteholders of any such revision, downgrade or withdrawal. A suspension, downgrade or withdrawal at any time of the credit rating assigned to Albania may adversely affect the Albanian economy and the Government's cost of borrowing and, in turn, Albania's ability to repay principal and make payments of interest on the Notes.

The high level of foreign ownership in the Albanian banking system makes it vulnerable to disruption as a result of internal or external factors

As at 30 June 2018, foreign-controlled banks accounted for 80.8% of total assets in the Albanian banking system. The banking sector is comprised of 14 banks, of which three are domestically-owned, while the rest are wholly foreign-owned. While the local Albanian subsidiaries are at present largely self-financing, in the event of increased levels of NPLs or deteriorating economic conditions in Albania, foreign parent banks may decline to provide financing to their subsidiaries in Albania or may be unable to provide such financing, as a result of adverse economic developments or regulatory requirements in their home jurisdictions. Foreign-owned banks may also reduce their loan portfolios or other business activities in a manner which adversely affects Albania, as a result of events unrelated to Albania, including as a result of economic turbulence in the Eurozone and sovereign debt markets or the jurisdictions of their parent banks, as well as the impact of any "contagion" effects, and the resulting impact of these and other factors on the financial condition of the banking group more generally. Such occurrences may result in a reduction in the level or scope of the activities of these banks in Albania or a failure to meet capital adequacy ratios or other regulatory requirements, among other developments. Any or all of these occurrences may negatively affect the Albanian economy and have an adverse effect on Albania's capacity to repay principal and make payments of interest on the Notes.

In 2017 and 2018, a number of EU banks announced their intention to sell their Albanian subsidiaries. In May 2018, Veneto Banca was acquired by Intesa SanPaolo Bank (with the two Albanian subsidiaries expected to be merged). In July 2018, American Bank of Investment purchased NBG Bank Albania. There can be no assurance that further sales will not be completed or that any new market entrants will have appropriate banking experience and meet fit and proper criteria to operate in the Albanian banking market. In addition, any future abrupt exit or change in portfolio by an EU bank or other large bank operating in Albania could adversely affect Albania's foreign exchange and treasury bills market.

In addition, future developments adversely affecting foreign banks with subsidiaries in Albania, may cause volatility in Albania, including local withdrawals from the Albanian subsidiaries of such banks as a result of the actual or perceived weakness of such subsidiaries. The occurrence of any such events would have an adverse effect on Albania's banking system and Albania's economy. See "*Monetary and Financial System—The Albanian Banking Sector*".

Albania faces socio-economic challenges, including high levels of emigration, an ageing population and high youth unemployment

Albania faces certain socio-economic challenges, including high levels of emigration, an ageing population and high youth unemployment. These challenges require continuing attention by the Government. The percentage of the labour force aged 15 to 29 who were out of the workforce as at 31 March 2018 was 24.5%, as compared to a high of 32.2% as at 31 December 2015. Albania also faces demographic challenges from continued migration and population ageing, which could result in a decline in working age population and, in turn, increasingly affect Albania's growth potential. According to data published by INSTAT and the International Organisation for Migration, emigration from Albania, primarily by professionals due to economic factors, was one of the major reasons for the decline in the population in Albania between the 2001 and the 2011 censuses. Emigration of professionals has continued since 2011.

Albania's pension system is funded on the basis of employee and employer contributions on a "pay as you go" basis. Accordingly, these socio-economic challenges may have a material adverse impact on Albania's pension deficit.

Albania's legal system is not fully developed and presents greater risks and uncertainties than a more developed legal system

Albania has taken, and continues to take, steps aimed at further developing its legal system, working to ensure comparability to the legal systems of EU and other countries. New laws have been introduced, including a law protecting minorities, and revisions have been made with respect to, amongst others, company, property, securities, labour, environmental and taxation laws in order to harmonise these with EU laws. In addition, while Albania has introduced certain judicial reforms and adopted a cross-sectoral justice strategy, the independence of the judicial system and its immunity from economic and political interference in Albania remain subject to ongoing reform. Accordingly, Albania's legal system remains in transition and is subject to greater risks and uncertainties than a more developed legal system. Such risks include: (i) potential inconsistencies between and among the Constitution and various laws; (ii) Governmental, ministerial and local orders, decisions, resolutions and other acts; (iii) provisions in laws and regulations that are ambiguously worded or lack specificity and raise difficulties when implemented or interpreted; (iv) difficulties in predicting the outcome of judicial application of Albanian legislation; and (v) political or other factors resulting in inconsistent judicial determinations and interpretations.

As part of Albania's judicial reform measures, a re-evaluation process (or vetting process) of all judges and prosecutors commenced in 2018, with the vetting of members of the Constitutional Court, the President of the High Court and the General Prosecutor. The initial stage of this vetting process has resulted in a number of judicial resignations, retirements and dismissals. The vetting process is ongoing and is expected to be applied to all levels of the judiciary. Accordingly, additional judges and prosecutors may resign, retire or be dismissed in the future. There can be no assurance that sufficient numbers and quality of judges and prosecutors will be available in the short-term to replace those members of the judiciary that have left their posts as a result of the vetting process. Any failure to fill vacant posts could result in delays to judicial proceedings.

As Albania is a civil law jurisdiction, judicial decisions under Albanian law generally have no precedential value and the courts are generally not bound by earlier court decisions taken under the same or similar circumstances. This may result in an inconsistent application of Albanian legislation to resolve the same or similar disputes. In some circumstances, therefore, it may not be possible to obtain swift enforcement of a judgment in Albania or to predict the outcome of legal proceedings. These and other factors may adversely impact economic conditions and the environment for investment in Albania, including the willingness of foreign and other investors to invest in Albania or to provide financing for projects and companies in Albania. Such effects could have an adverse effect on economic conditions and growth in Albania and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes.

Corruption, money laundering and organised crime may hinder the growth of the Albanian economy, delay or foreclose EU accession or otherwise adversely affect Albania

The EU, independent analysts and multinational institutions, such as the IMF, have identified corruption, money laundering and organised crime as concerns in Albania. In the 2017 Transparency International Corruption Perceptions Index, Albania ranked 91st out of 180 countries and territories under review (with the country ranked 1st considered the least corrupt). By comparison, Kosovo is ranked 85th, Montenegro is ranked 64th, Macedonia is ranked 107th and Greece is ranked 59th.

A number of judicial resignations, retirements and dismissals have resulted from the vetting process being conducted as part of judicial reform measures. A number of dismissals have been due to the identification of unexplained assets and sources of funds.

Allegations, evidence of or charges relating to corruption, money laundering or organised crime involving the Government or members thereof, the judiciary or employees of high profile companies, regardless of whether such allegations prove to be true, may create tensions between political parties (both governing and in opposition) and among members of the public.

Allegations of corruption are exacerbated by Albania's developing tax collection infrastructure. In addition, corruption, money laundering or organised crime in Albania may have a negative impact on Albania's economy and its reputation abroad, especially on its ability to attract FDI, and may adversely impact progress towards EU accession. A combination of all or some of these factors may lead to negative effects on economic and social conditions in Albania, which may, in turn, lead to a deterioration in public finances and a material adverse effect on the ability of Albania to fund payments on its debt obligations, including the Notes.

A significant portion of the Albanian economy is not recorded

A significant portion of the Albanian economy (estimated by INSTAT and academic reports to account for approximately 28% of GDP in 2016) is comprised of an unofficial "grey market" or shadow economy. This informal economy is not recorded and is only partially taxed, resulting in a lack of revenue for the Government, ineffective regulation and monitoring of the overall economy, unreliability of statistical information (including the understatement of GDP and the contribution to GDP of various sectors) and an inability to monitor or otherwise regulate this portion of the economy. The scale of the informal economy also facilitates corruption, money laundering and organised crime. Due to its nature, the size of the informal economy is difficult to measure and any estimates are subject to inherent uncertainty. Although the Government is attempting to address the informal economy, there can be no assurance that such reforms will adequately address the issues and bring the full economy into the formal sector, which could, in turn, have a material adverse effect on the Albanian economy and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes.

Albania has a variable climate and may be subject to energy, food and water security risks

Albania has a variable climate and both drought and flooding can affect it. Unpredictable rainfall may impact Albania's primary sector activities, most notably in the agricultural sector (which accounted for 39.7% of employment in 2017), as well as its hydropower activities (which accounted for 98.0% of electricity generation in 2017). Annual rainfall variations may more broadly affect GDP, prices and the balance of trade.

Droughts and other adverse climatic events have affected the Albanian economy in the past, particularly the energy sector. Extreme temperatures and a heatwave contributed to drought conditions in 2017. In June 2017, a state of emergency was declared in Tirana in response to temperatures of over 40 degrees Celsius and a number of wildfires. Drought conditions in 2017 had a significant negative impact on hydroelectric power generation in Albania. This decrease in production, coupled with record electricity demand, primarily for air conditioning and related uses, resulted in increased electricity imports by state-owned electricity distributor *Operatori i Shpërndarjes së Energjisë Elektrike sh.a*. ("**OHSEE**") and state-owned power utility company *Korporata Elektroenergjitike Shqiptare* ("**KESH**") and required Government support.

The increase in such imports negatively affected the financial results of such companies in 2017 and, in the case of OHSEE, forced it to reduce its planned investment in the distribution network by 30%, as compared to investment in 2016. OHSEE announced a decrease in its net profit from ALL 18.7 billion in 2016 to ALL 1.8 billion in 2017, its worst financial results for three years.

Any further occurrences of droughts and other adverse climatic events, particularly if sustained over a long period, may in the future have a material adverse effect on the Albanian economy, in particular on the energy sector and the companies that operate in that sector, and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes.

Fluctuations in prices of imported goods may have a negative impact on the Albanian economy

The comparatively high dependency on imports of certain production sectors and levels of consumer demand, coupled with falling import prices (in certain cases as a result of domestic exchange rate appreciation) has stimulated high import growth, particularly since 2015. In particular, Albania's domestic electricity and power production is dependent on its hydropower activities. Accordingly, Albania's energy sector is affected by droughts and other adverse climatic events, which impact Albania's hydropower activities, and increase Albania's need for, and dependence on, electricity imports. As a result of the drought in 2017, electricity from electricity imports accounted for approximately 45% of available electricity in 2017, as compared to approximately 26% in 2016. See "*—Albania has a variable climate and may be subject to energy, food and water security risks*".

Accordingly, the energy sector, as well as other import-dependent sectors, are vulnerable to global price fluctuations, which could be significant. Any such fluctuations of global prices could have an adverse effect on economic conditions and growth in Albania and, accordingly, on the ability of Albania to repay principal and make payments of interest on the Notes.

Official economic data may not be accurate and could be revised

A range of Government ministries, including the Ministry of Finance of Economy and the Ministry of Agriculture, as well as Bank of Albania and INSTAT, have prepared the statistical data which appears in this Prospectus. Certain of these statistics may be more limited in scope, less accurate, reliable or consistent in terms of basis of compilation between various ministries and institutions and published less frequently than is the case for comparable statistics prepared by other countries (particularly existing members of the EU). Consequently, prospective investors in the Notes should be aware that figures relating to Albania's GDP and many other figures cited in this Prospectus may be subject to some degree of uncertainty. Furthermore, these limitations of statistical information make adequate monitoring of key fiscal and economic indicators more difficult than for other countries.

In addition, standards of accuracy of statistical data may vary from ministry to ministry or authority to authority or from period to period due to the application of different methodologies. In this Prospectus, data is presented, as applicable, as having been provided by the relevant ministry or authority to which the data is attributed, and no attempt has been made to reconcile such data to data compiled by other ministries or by other organisations, such as the IMF or the World Bank. Albania produces data in accordance with the IMF's e-GDDS. In its most recent assessment of data adequacy for surveillance, dated 30 September 2017, the IMF noted that the "*main obstacles are in real sector statistics and weak inter-institutional cooperation between government agencies".* The existence of a sizeable unofficial or "grey market" economy in Albania may also affect the accuracy and reliability of Albania's statistical information.

The statistical information presented herein is based on the latest official information currently available from the stated source. The Republic's official financial and economic statistics, included those presented herein, are subject to review as part of a regular confirmation process. Accordingly, financial and economic information may differ from previously published figures and may be subsequently adjusted or revised. Figures presented in this Prospectus may also be subject to rounding. Prospective investors should also be aware that none of the statistical information in this Prospectus has been independently verified.

Risks Related to the Notes

The Notes may not be a suitable investment for all investors

Each potential investor in the Notes must determine the suitability of its investment in light of its own circumstances. In particular, each potential investor may wish to consider, either on its own or with the help of its financial and other professional advisers, whether it:

(i) has sufficient knowledge and experience to make a meaningful evaluation of the Notes, the merits and risks of investing in the Notes and the information contained in this Prospectus or any applicable supplement;

(ii) has access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Notes and the impact the Notes will have on its overall investment portfolio;

(iii) has sufficient financial resources and liquidity to bear all of the risks of an investment in the Notes, including where the currency for principal or interest payments is different from the potential investor's currency;

(iv) understands thoroughly the terms of the Notes and is familiar with the behaviour of financial markets; and

(v) is able to evaluate possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

The terms of the Notes may be modified or waived without the consent of all the holders of the Notes

The conditions of the Notes contain provisions for calling meetings of Noteholders to consider matters affecting their interests generally and for the passing of written resolutions of Noteholders without the need for a meeting. Such provisions are commonly referred to as "collective action clauses". These provisions permit defined majorities to bind all Noteholders including Noteholders who did not attend and vote at the relevant meeting or sign the relevant written resolution and Noteholders who voted in a manner contrary to the majority.

In the future, the Issuer may issue debt securities which contain collective action clauses in the same form as the collective action clauses in the conditions of the Notes. If this occurs, the Notes could be capable of aggregation with any such future debt securities, meaning that a defined majority of the holders of such debt securities (when taken in the aggregate) would be able to bind all holders of all the relevant aggregated series of debt securities, including the Notes.

Any modification or actions relating to any Reserved Matter (as defined in the Conditions), including in respect of payments and other important terms, may be made (a) to the Notes with the consent of the holders of 75% of the aggregate principal amount of the outstanding Notes, and (b) to multiple series of debt securities which may be issued by the Issuer (including the Notes) with the consent of both (i) the holders of at least two thirds of the aggregate principal amount of all outstanding debt securities being aggregated and (ii) the holders of at least 50% in aggregate principal amount of the outstanding debt securities of each series being aggregated. In addition, under certain circumstances, including the satisfaction of the Uniformly Applicable condition (as more particularly described in the Conditions), any such modification or action relating to any Reserved Matter may be made to multiple series of the Issuer's debt securities (including the Notes) with the consent of 75% of the aggregate principal amount of the outstanding debt securities of all affected series, without requiring a particular percentage of the holders of any individual affected debt securities to vote in favour of or approve any proposed modification or action. Any modification or action proposed by the Issuer may, as the option of the Issuer, be made in respect of certain series of the Issuer's debt securities only and, for the avoidance of doubt, the collective action provisions may be used for different groups of two or more debt securities simultaneously. At the time of any proposed modification or action, the Issuer will be obliged, inter alia, to specify which method or methods of aggregation will be used by the Issuer.

There is, therefore, a risk that the conditions of the Notes may be amended, modified or waived in circumstances whereby the holders of debt securities voting in favour of or signing a written resolution in respect of an amendment, modification or waiver may be holders of different series of debt securities and, as such, the majority of Noteholders would not necessarily have voted in favour of or signed a written resolution in respect of such amendment, modification or waiver. In addition, there is a risk that the provisions allowing for aggregation across multiple series of debt securities may make the Notes less attractive to purchasers in the secondary market on the occurrence of an Event of Default or in a distress situation.

The Conditions also contain a provision permitting the Notes and the Conditions to be amended without the consent of the Noteholders to correct a manifest error, or where the modification is of a formal, minor or technical nature or is not materially prejudicial to the interests of the Noteholders.

Any such amendment, modification or waiver in relation to the Notes may adversely affect their trading price.

The Conditions restrict the ability of an individual holder to declare an Event of Default, and permit a majority of holders to rescind a declaration of such an Event of Default

The Conditions contain a provision which, if an Event of Default occurs, allows the holders of at least 25% in aggregate principal amount of the outstanding Notes to declare all the Notes to be immediately due and payable by providing notice in writing to the Issuer, whereupon the Notes shall become immediately due and payable, at their principal amount with accrued interest, without further action or formality.

The Conditions also contain a provision permitting the holders of at least 50% in aggregate principal amount of the outstanding Notes to notify the Issuer to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn. The Issuer shall give notice thereof to the Noteholders, whereupon the relevant declaration shall be withdrawn and shall have no further effect.

The Issuer is not required to effect equal or rateable payment(s) with respect to its other debt obligations pursuant to the Conditions, and is not required to pay other debt obligations at the same time or as a condition of paying sums on the Notes and vice versa

In accordance with Condition 3 (*Status*), the Notes will at all times rank *pari passu* with all other unsecured External Indebtedness of the Republic from time-to-time outstanding. However, the Republic shall have no obligation to effect equal or rateable payment(s) at any time with respect to any other such External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa. Accordingly, the Republic may choose to grant preferential treatment to, and therefore prioritise payment obligations to, other unsecured creditors of the Republic as payments fall due.

The Notes have minimum denominations, which may affect an investor's ability to receive definitive Certificates

The Notes have denominations consisting of a minimum denomination of €100,000 plus one or more higher integral multiples of €1,000, and it is possible that Notes may be traded in amounts in excess of €100,000 that are not integral multiples of €100,000. In such a case a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system would not be able to sell the remainder of such holding without first purchasing a principal amount of Notes at or in excess of €100,000 such that its holding amounts to such a specified denomination. Further, a holder who, as a result of trading such amounts, holds an amount which is less than €100,000 in his account with the relevant clearing system at the relevant time may not receive a definitive certificate in respect of such holding (should certificates in definitive form be printed) and would need to purchase a principal amount of Notes such that its holding amounts to at least €100,000.

Credit ratings may not reflect all risks

The Notes are expected to be assigned a rating of B1 by Moody's and B+ by S&P. These ratings may not reflect the potential impact of all risks related to structure, market, additional factors discussed above and other factors that may affect the value of the Notes. A credit rating is not a recommendation to buy, sell or hold securities and may be subject to suspension, reduction or withdrawal at any time by the assigning rating agency. A credit rating is generally dependent on a number of factors, including public debt levels, past and projected future budget deficits and other considerations. Any adverse change in the credit ratings of the Notes, or of the Republic, could adversely affect the trading price of the Notes.

The Conditions are based on current provisions of English law

The conditions of the Notes are based on English law in effect as at the date of this Prospectus. No assurance can be given as to the impact of any possible judicial decision or change to English law or administrative practice after the date of this Prospectus and any such change could materially adversely impact the value of the Notes.

A secondary market for the Notes may not develop

The Notes are new securities, which may not be widely distributed and for which there is currently no active trading market. If the Notes are traded after their initial issuance, they may trade at a discount to their initial offering price, depending upon prevailing interest rates, the market for similar securities, general economic conditions and the financial condition of the Republic. Although application has been made to Euronext Dublin for the Notes to be admitted to the Official List and to trading on the Market, there is no assurance that such application will be accepted or that an active trading market will develop. Accordingly, there is no assurance as to the development or liquidity of any trading market for the Notes. Investors may not be able to sell their Notes easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. Illiquidity may have a material adverse effect on the market value of the Notes.

Furthermore, the Notes have not been, and will not be, registered under the Securities Act or any other applicable securities laws and are being offered pursuant to an exemption from the registration requirements of the Securities Act. Accordingly, the Notes are subject to certain transfer restrictions and will bear a legend regarding those restrictions. See "*Subscription and Sale*" and "*Transfer Restrictions*". These restrictions may limit the ability of investors to resell the Notes.

Investors in the Notes must rely on the procedures of Euroclear and Clearstream, Luxembourg

The Notes will be represented on issue by the Global Certificates, each of which will be registered in the name of a nominee of, and delivered to, a common depositary for Euroclear and Clearstream, Luxembourg. Except in certain limited circumstances described in the Global Certificates, investors will not be entitled to receive individual certificates in definitive form in respect of the Notes.

Euroclear and Clearstream, Luxembourg will maintain records of the beneficial interests in the Global Certificates. While the Notes are represented by the Global Certificates, investors will be able to trade their beneficial interests only through Euroclear and Clearstream, Luxembourg.

The Issuer will discharge its payment obligations under the Notes by making payments to or to the order of the common depositary for Euroclear and Clearstream, Luxembourg for distribution to their accountholders. A holder of a beneficial interest in a Global Certificate must rely on the procedures of Euroclear and Clearstream, Luxembourg to receive payments under the Notes. The Issuer has no responsibility or liability for the records relating to, or payments made in respect of, beneficial interests in the Global Certificates.

Holders of beneficial interests in the Global Certificates will not have a direct right to vote in respect of the Notes. Instead, such holders will be permitted to act only to the extent that they are enabled by Euroclear and Clearstream, Luxembourg to appoint appropriate proxies.

Legal investment considerations may restrict certain investments

The investment activities of certain investors are subject to legal investment laws and regulations, or review or regulation by certain authorities. Each potential investor should consult its legal advisers to determine whether and to what extent (i) the Notes are legal investments for it, (ii) the Notes can be used as collateral for various types of borrowing and (iii) other restrictions apply to its purchase or pledge of any Notes. Financial institutions should consult their legal advisors or the appropriate regulators to determine the appropriate treatment of the Notes under any applicable risk-based capital or similar rules.

There are risks relating to exchange rate risks and exchange controls

The Issuer will pay principal and interest on the Notes in Euros. This presents certain risks relating to currency conversions if an investor's financial activities are denominated principally in a currency or currency unit (the "**Investor's Currency**") other than Euros. These include the risk that exchange rates may significantly change (including changes due to a devaluation of the Euro or revaluation of the Investor's Currency) and the risk that authorities with jurisdiction over the Investor's Currency may impose or modify exchange controls. An appreciation in the value of the Investor's Currency relative to Euros would decrease (i) the Investor's Currency equivalent yield on the Notes, (ii) the Investor's Currency equivalent value of the principal payable on the Notes and (iii) the Investor's Currency equivalent market value of the Notes.

Government and monetary authorities may impose (as some have done in the past) exchange controls that could adversely affect an applicable exchange rate. As a result, investors may receive less interest or principal than expected, or no interest or principal.

Investors may experience difficulty in enforcing foreign judgments in Albania.

Payments under the Notes are dependent upon the Issuer making payments to investors in the manner contemplated under the Notes. If the Issuer fails to do so, it may be necessary for an investor to bring an action against the Issuer to enforce its obligations and/or to claim damages, as appropriate, which may be costly and time-consuming.

The Conditions, the Notes and the Agency Agreement are governed by English law. The Republic will irrevocably submit to, and accept the jurisdiction of, the ICC, with respect to any suit, action or proceeding arising out of or based on the Notes. In addition, if the conditions set out in Condition 17.3 of the Conditions (and/or the corresponding provisions of the Agency Agreement) are met, the courts of England shall have exclusive jurisdiction to settle any disputes. Recognition of a foreign court decision and a foreign arbitral award in Albania shall be subject to the criteria set out in article 394 of the Albanian Code of Civil Procedure, pursuant to which a foreign court decision will not be recognised if: (i) it was taken by a court acting ultra vires; (ii) it was taken in contravention of the principle of the equality of the parties; (iii) it was taken in contravention of the principle of the rights of a party to be heard; (iv) it was taken in contravention to the public order of the Republic of Albania; (v) an Albanian court has already given a different decision on the same dispute between the same parties; or (vi) an Albanian court has already accepted hearing the same dispute between the same parties prior to the foreign court decision taking a *res judicata* force.

The courts of the Republic of Albania will recognise as valid, and will enforce an arbitral award granted under the Rules of Arbitration of the ICC without re-examination of the merits of the case in accordance with and subject to the provisions of the 1958 New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards.

Albanian law is, however, not clear as regards to the enforceability of foreign court decisions in Albania and the choice of jurisdiction of foreign courts in cases where the Republic is a party. Therefore, the choice of jurisdiction of foreign courts (including English courts) may be held to be invalid by an Albanian court and the submission of the Republic to the exclusive jurisdiction of the English courts might adversely affect the recognition of the judgment by the Albanian courts and it may not be possible to enforce foreign court judgments, including English court judgments, against the Republic without a re-examination of the merits.

The Assembly has enacted Law № 63 of 20 September 2018 "On the Eurobond to be issued by the Minister of Finance and Economy and the buyback of a portion of the existing Eurobond, approval of exemptions from taxes and fees and provisions for waiver of immunity in the agreements to be signed by the Minister of Finance and Economy". Pursuant to Article 1 of this law, the Republic has waived its sovereign immunity in respect of the Notes, subject to certain exceptions. In particular, the waiver of the sovereign immunity under this law is subject to the exception that a court decision may not be enforced against present or future "premises of the mission" as defined in the Vienna Convention on Diplomatic Relations signed in 1961, present or future "consular premises" as defined in the Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or diplomatic mission of Albania or any agency or instrumentality thereof or any immovable property which falls under provisions of paragraph 1 to 3 of article 3 of Albanian Law № 8743, dated 22 February 2001 "On the state immovable properties". In addition, public domain properties of the Republic of Albania (as defined under Albanian law) are immune from enforcement.

TERMS AND CONDITIONS OF THE NOTES

The following is the text of the Conditions which (subject to modification and except for the paragraphs in italics) will be endorsed on the Certificates issued in respect of the Notes:

The €500,000,000 3.500% Notes due 9 October 2025 (the "**Notes**", which expression shall in these Conditions, unless the context otherwise requires, include any further notes issued pursuant to Condition 16 and forming a single series with the Notes) of the Republic of Albania (the "**Issuer**"), acting through its Minister of Finance and Economy, are issued subject to, and with the benefit of, an Agency Agreement dated 9 October 2018 (such agreement as amended and/or supplemented and/or restated from time-to-time, the "**Agency Agreement**") made among the Issuer, Citigroup Global Markets Europe AG, as registrar (the "**Registrar**"), and Citibank, N.A., London Branch, as fiscal agent, paying agent and transfer agent (the "**Fiscal Agent**", the "**Paying Agent**" and the "**Transfer Agent**", and, collectively with the Registrar and any other Paying Agents appointed in respect of the Notes from time-to-time, the "**Agents**"). The holders of the Notes are entitled to the benefit of a Deed of Covenant (the "**Deed of Covenant**") dated 9 October 2018 and executed by the Issuer. The original of the Deed of Covenant is held by the Fiscal Agent on behalf of the Noteholders (as defined below) at its specified office.

The statements in these Conditions include summaries of, and are subject to, the detailed provisions of and definitions contained in the Agency Agreement. Copies of the Agency Agreement and the Deed of Covenant are available for inspection during normal business hours by the Noteholders at the specified office of each of the Paying Agents. The Noteholders are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them. References in these Conditions to the Fiscal Agent, the Registrar, the Transfer Agents, the Paying Agents and the Agents shall include any successor appointed under the Agency Agreement.

*The owners shown in the records of Euroclear Bank SA/NV ("**Euroclear**") and Clearstream Banking, S.A. ("**Clearstream, Luxembourg**") of book entry interests in Notes are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Agency Agreement and the Deed of Covenant applicable to them.*

1. FORM, DENOMINATION AND TITLE

1.1 Form and Denomination

The Notes are issued in registered form in amounts of €100,000 and integral multiples of €1,000 in excess thereof (referred to as the "**principal amount**" of a Note). A note certificate (each, a "**Certificate**") will be issued to each Noteholder in respect of its registered holding of Notes. Each Certificate will be numbered serially with an identifying number, which will be recorded on the relevant Certificate and in the relevant Register (as defined below), which the Issuer will procure to be kept by the Registrar.

The Notes are not issuable in bearer form.

1.2 Title

The Registrar will maintain a separate register (each, a "**Register**") in respect of each of the Unrestricted Notes and the Restricted Notes in accordance with the provisions of the Agency Agreement. Title to the Notes passes only by registration in the relevant Register. The holder of any Note will (except as otherwise required by law) be treated as its absolute owner for all purposes (whether or not it is overdue and regardless of any notice of ownership, trust or any interest or any writing on, or the theft or loss of, the Certificate issued in respect of it) and no person will be liable for so treating the holder. In these Conditions, "**Noteholder**" and (in relation to a Note) "**holder**" means the person in whose name a Note is registered in the relevant Register.

For a description of the procedures for transferring title to book entry interests in the Notes, see the Agency Agreement and "Clearing and Settlement Arrangements" below.

2. TRANSFERS OF NOTES AND ISSUE OF CERTIFICATES

2.1 Transfers

A Note may, subject to Condition 2.4, be transferred in whole or in part by depositing the Certificate issued in respect of that Note, with the form of transfer on the back duly completed and signed, at the specified office of the Registrar or any Transfer Agent.

For a description of certain restrictions on transfers of interests in the Notes, see "Transfer Restrictions".

2.2 Delivery of new Certificates

Each new Certificate to be issued upon the transfer of Notes will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the duly completed form of transfer endorsed on the relevant Certificate, be mailed by uninsured mail at the risk of the holder entitled to the Note to the address specified in the form of transfer. For the purposes of this Condition, "**business day**" shall mean a day on which commercial banks and foreign exchange markets are open for business in the city in which the specified office of the Agent with whom a Certificate is deposited in connection with a transfer is located.

Except in the limited circumstances described in "The Global Certificates —Exchange for Certificates", owners of interests in the Notes will not be entitled to receive physical delivery of Certificates. Issues of Certificates upon transfer of Notes are subject to compliance by the transferor and transferee with the certification procedures described above and in the Agency Agreement and compliance with the legends placed on the Notes as described in "Transfer Restrictions".

Where some but not all of the Notes in respect of which a Certificate is issued are to be transferred, a new Certificate in respect of the Notes not so transferred will, within five business days of receipt by the Registrar or the relevant Transfer Agent of the original Certificate, be mailed by uninsured mail at the risk of the holder of the Notes not so transferred to the address of such holder appearing on the relevant Register or as specified in the form of transfer.

2.3 Formalities Free of Charge

Registration of a transfer of Notes will be effected without charge by, or on behalf of, the Issuer or any Agent but upon payment by the Noteholder (or the giving of such indemnity as the Issuer or any Agent may reasonably require) in respect of any tax or other governmental charges, which may be imposed in relation to such transfer.

2.4 Closed Periods

No Noteholder may require the transfer of a Note to be registered during the period of 15 days ending on (and including) the due date for any payment of principal or interest on that Note.

2.5 Regulations

All transfers of Notes and entries on the relevant Register will be made subject to the detailed regulations concerning transfer of Notes scheduled to the Agency Agreement. The regulations may be changed by the Issuer with the prior written approval of the Registrar and the Transfer Agent. A copy of the current regulations will be mailed (free of charge) by the Registrar to any Noteholder who requests one.

3. STATUS

The Notes constitute direct, general, unconditional and (subject to the provisions of Condition 4) unsecured obligations of the Issuer and rank and will rank *pari passu*, without preference among themselves, with all other unsecured External Indebtedness (as defined below) of the Issuer from time-to-time outstanding, *provided*, that the Issuer shall have no obligation to effect equal or rateable payment(s) at any time with respect to any such other External Indebtedness and, in particular, shall have no obligation to pay other External Indebtedness at the same time or as a condition of paying sums due on the Notes and vice versa.

"**External Indebtedness**" means any obligations (other than the Notes) for borrowed monies that are denominated or payable in a currency or by reference to a currency other than the lawful currency of the Issuer, *provided that*, if at any time the lawful currency of the Issuer is the Euro, then any indebtedness denominated or payable, or at the option of the holder thereof payable, in Euro, shall be included in the definition of "External Indebtedness".

4. NEGATIVE PLEDGE

So long as any of the Notes remains outstanding (as defined in the Agency Agreement), the Issuer will not create or permit to subsist any Security Interest (as defined below), other than a Permitted Security Interest (as defined below), over any of its property or assets to secure Public External Indebtedness of the Issuer or any guarantee of the Issuer in respect of Public External Indebtedness, unless (i) the Notes are secured equally and rateably with such Public External Indebtedness or (ii) the Notes have the benefit of such other security, guarantee, indemnity or other arrangement as shall be substantially equivalent.

In these Conditions:

"**Permitted Security Interest**" means:

(a) any Security Interest upon property (or any revenues therefrom) to secure Public External Indebtedness incurred for the purpose of financing the acquisition or construction of such property;

(b) any Security Interest existing on any property (or any revenues therefrom) at the time of its acquisition;

(c) any Security Interest securing Public External Indebtedness incurred for the purpose of Project Financing provided that (i) the holders of such Public External Indebtedness expressly agree to limit their recourse to the assets and revenues of such project as the principal source of repayment of such Public External Indebtedness and (ii) the property over which such Security Interest is granted consists solely of such assets and revenues;

(d) any Security Interest existing on the original date of issue of the Notes; and

(e) the renewal or extension of any Security Interest described in subparagraphs (a) to (d) above, provided that the principal amount of the original financing secured thereby is not increased.

"**Project Financing**" means any arrangement for the provision of funds which are to be used solely to finance a project for the acquisition, construction, development or exploitation of any property.

"**Public External Indebtedness**" means any External Indebtedness, which is evidenced or represented by bonds, notes or other securities, which are for the time being or are capable of being or intended to be quoted, listed or ordinarily dealt in on any stock exchange, automated trading system, over-the-counter or other securities market.

"**Security Interest**" means a lien, pledge, mortgage, security interest, charge or other encumbrance or preferential arrangement which has the practical effect of constituting a security interest.

5. INTEREST

5.1 Interest Rate and Interest Payment Dates

The Notes bear interest on their outstanding principal amount from and including 9 October 2018 at the rate of 3.500% *per annum* (the "**Rate of Interest**"), payable annually in arrear on 9 October in each year (each an "**Interest Payment Date**"). The first payment (for the period from, and including, 9 October 2018 to, but excluding, 9 October 2019 and amounting to €35.00 per €1,000 in principal amount of Notes) shall be made on 9 October 2019.

The period beginning on, and including, 9 October 2018 and ending on, but excluding, the first Interest Payment Date and each successive period beginning on, and including, an Interest Payment Date and ending on, but excluding, the next successive Interest Payment Date is called an "**Interest Period**".

5.2 Interest Accrual

Each Note will cease to bear interest from, and including, its due date for redemption unless, upon surrender of the Certificate representing such Note, payment of the principal in respect of the Note is improperly withheld or refused or unless default is otherwise made in respect of payment. In such event, interest will continue to accrue at the rate referred to in Condition 5.1 until whichever is the earlier of:

(a) the date on which all amounts due in respect of such Note have been paid; and

(b) the day which is seven days after notice has been given to the Noteholders that the Fiscal Agent or the Paying Agent has received all sums due in respect of the Notes up to such seventh day (except to the extent that there is any subsequent default in payment to the relevant Noteholders under these Conditions).

5.3 Calculation of Broken Interest

When interest is required to be calculated in respect of a period which is shorter than a full year, it shall be calculated by applying the Rate of Interest to each €1,000 principal amount of Notes (the "**Calculation Amount**") and on the basis of (a) the actual number of days in the period from, and including, the date from which interest begins to accrue (the "**Accrual Date**") to, but excluding, the date on which it falls due, divided by (b) the actual number of days from, and including, the Accrual Date to, but excluding, the next following Interest Payment Date. The resultant figure shall be rounded to the nearest cent, half a cent being rounded upwards. The interest payable in respect of a Note shall be the product of such rounded figure and the amount by which the Calculation Amount is multiplied to reach the denomination of the relevant Note, without any further rounding.

6. PAYMENTS

6.1 Payments in respect of Notes

Payment of principal and interest will be made by transfer to the registered account of the Noteholder or by Euro cheque drawn on a bank that processes payments in Euro mailed by uninsured first class mail or (if posted to an address overseas) airmail to the registered address of the Noteholder if it does not have a registered account. Payments of principal and payments of interest due otherwise than on an Interest Payment Date will only be made against surrender of the relevant Certificate at the specified office of any of the Agents. Interest on Notes due on an Interest Payment Date will be paid to the holder shown on the relevant Register at the close of business on the date (the "**record date**") being the fifteenth day before the due date for the payment of interest.

For the purposes of this Condition, a Noteholder's "**registered account**" means the Euro account maintained by, or on behalf of, it with a bank that processes payments in Euro, details of which appear on the relevant Register at the close of business, in the case of principal and interest due otherwise than on an Interest Payment Date, on the second Business Day (as defined in Condition 6.4 below) before the due date for payment and, in the case of interest due on an Interest Payment Date, on the relevant record date, and a Noteholder's "**registered address**" means its address appearing on the relevant Register at that time.

6.2 Payments subject to Applicable Laws

Payments in respect of principal and interest on the Notes are subject in all cases to any fiscal or other laws and regulations applicable in the place of payment but without prejudice to the provisions of Condition 8.

6.3 No Commissions

No commissions or expenses shall be charged to the Noteholders in respect of any payments made in accordance with this Condition.

6.4 Payment on Business Days

Where payment is to be made by transfer to a registered account, payment instructions (for value the due date or, if that is not a Business Day (as defined below), for value the first following day which is a Business Day) will be initiated and, where payment is to be made by cheque, the cheque will be mailed, on the Business Day for payment or, in the case of a payment of principal or a payment of interest due otherwise than on an Interest Payment Date, if later, on the Business Day on which the relevant Certificate is surrendered at the specified office of an Agent.

Noteholders will not be entitled to any interest or other payment for any delay after the due date in receiving the amount due if the due date is not a Business Day, if the Noteholder is late in surrendering its Certificate (if required to do so) or if a cheque mailed in accordance with this Condition arrives after the due date for payment.

In this Condition "**Business Day**" means a day (other than a Saturday or Sunday) on which the Trans-European Automated Real Time Gross Settlement Express Transfer (TARGET2) system is open and on which commercial banks and foreign exchange markets are open for general business in London and, in the case of surrender of a Certificate, in the place in which the Certificate is surrendered (or, as the case may be, endorsed).

6.5 Partial Payments

If the amount of principal or interest that is due on the Notes is not paid in full, the Registrar will annotate the relevant Register with a record of the amount of principal or interest in fact paid.

6.6 Agents

The names of the initial Agents and their initial specified offices are set out at the end of these Conditions. The Issuer reserves the right at any time to vary or terminate the appointment of any Agent and to appoint additional or other Agents provided that:

(a) there will at all times be a Fiscal Agent;

(b) so long as the Notes are listed on any stock exchange or admitted to listing by any other relevant authority, there will at all times be a Paying Agent (which may be the Fiscal Agent) having a specified office in such place as may be required by the rules and regulations of the relevant stock exchange or such other relevant authority;

(c) there will at all times be a Paying Agent (which may be the Fiscal Agent) having a specified office in London; and

(d) there will at all times be a Registrar.

Notice of any termination or appointment and of any changes in specified offices shall be given to the Noteholders promptly by the Issuer in accordance with Condition 12.

7. REDEMPTION AND PURCHASE

7.1 Redemption at Maturity

Unless previously redeemed or purchased and cancelled as provided below, the Issuer will redeem the Notes at their principal amount on 9 October 2025.

7.2 No Other Redemption

The Issuer shall not be entitled to redeem the Notes otherwise than as provided in Condition 7.1 above.

7.3 Purchases

The Issuer may at any time purchase Notes at any price in the open market or otherwise.

7.4 Cancellation

All Notes which are (a) redeemed or (b) purchased by, or on behalf of, the Issuer shall be cancelled and may not be reissued or resold.

8. TAXATION

8.1 Payment without Withholding

All payments in respect of the Notes by, or on behalf of, the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied collected, withheld or assessed by, or on behalf of, the Republic of Albania or any political subdivision or any authority thereof or therein having power to tax (collectively, "**Taxes**"), unless the withholding or deduction of the Taxes is required by law. In that event, the Issuer will pay such additional amounts as may be necessary in order that the net amounts received by the Noteholders after the withholding or deduction shall equal the respective amounts, which would have been receivable in respect of the Notes in the absence of the withholding or deduction; except that no additional amounts shall be payable in relation to any payment in respect of any Note:

(a) held by or on behalf of a holder who is liable to such Taxes in respect of such Note by reason of his having some connection with the Republic of Albania other than the mere holding of the Note; or

(b) if such Note is surrendered for payment more than 30 days after the Relevant Date (as defined below), except to the extent that the holder would have been entitled to such additional amounts on surrender of such Note for payment on the last day of such period of 30 days, assuming that day to have been a Business Day (as defined in Condition 6.4).

8.2 Interpretation

In these Conditions "**Relevant Date**" means the date on which the payment first becomes due, but, if the full amount of the money payable has not been received by the Fiscal Agent on or before the due date, it means the date on which, the full amount of the money having been so received, notice to that effect has been duly given to the Noteholders by the Issuer in accordance with Condition 12.

8.3 Additional Amounts

Any reference in these Conditions to any amounts in respect of the Notes shall be deemed also to refer to any additional amounts which may be payable under this Condition.

9. PRESCRIPTION

Claims in respect of principal and interest will become prescribed and become void unless made within 10 years (in the case of principal) and five years (in the case of interest) from the Relevant Date, as defined in Condition 8.

10. EVENTS OF DEFAULT

10.1 Declaration of Acceleration

If any of the following events (each an "**Event of Default**") occurs and is continuing:

(a) *Non-payment*: any amount of principal is not paid on the due date for payment thereof or any amount of interest on the Notes is not paid within 15 days of the due date for payment thereof; or

(b) *Breach of other obligations*: the Issuer does not perform or comply with any one or more of its other obligations under the Notes, which default is incapable of remedy or, if capable of remedy, is not remedied within 30 days after notice of such default has been given to the Issuer at the specified office of the Fiscal Agent by any Noteholder; or

(c) *Cross-acceleration of the Issuer*:

(i) the holders of any Public External Indebtedness of the Issuer accelerate such Public External Indebtedness or declare such Public External Indebtedness to be due and payable, or required to be prepaid (other than by a regularly scheduled required payment), prior to the originally stated maturity thereof; or

(ii) the Issuer fails to pay in full any principal of, or interest on, any Public External Indebtedness when due (after expiration of any originally applicable grace period) or any Guarantee of any Public External Indebtedness given by the Issuer shall not be honoured when due and called upon (after the expiration of any originally applicable grace period);

provided that the aggregate amount of the relevant Public External Indebtedness or Guarantee in respect of which one or more of the events mentioned above in this Condition 10.1(c) shall have occurred equals or exceeds €20,000,000 or its equivalent in other currencies; or

(d) *Moratorium*: the Issuer shall suspend payment of, or admit its inability to pay, its Public External Indebtedness or any part thereof or declare a general moratorium on, or in respect of, its Public External Indebtedness or any part thereof or anything analogous to the foregoing shall occur; or

(e) *Unlawfulness or Invalidity*: the validity of the Notes is contested by the Issuer or the Issuer shall deny any of its obligations under the Notes or it is or becomes unlawful for the Issuer to perform or comply with all or any of its obligations set out in the Notes or any of such obligations shall be or become unenforceable or invalid; or

(f) *International Monetary Fund*: the Issuer ceases to be a member of the International Monetary Fund or ceases to be eligible to use the general resources of the International Monetary Fund; or

(g) *Consents etc.*: any regulation, decree, consent, approval, licence or other authority necessary to enable the Issuer to perform its obligations under the Notes, the Agency Agreement or the Deed of Covenant or for the validity or enforceability thereof expires or is withheld, revoked or terminated or otherwise ceases to remain in full force and effect or is modified in a manner which adversely affects any right or claim of any of the Noteholders in respect of any payment due pursuant to these Conditions,

then the holders of at least 25% in aggregate principal amount of the outstanding Notes may, by notice in writing to the Issuer (with a copy to the Fiscal Agent), declare all the Notes to be immediately due and payable, whereupon they shall become immediately due and payable at their principal amount together with accrued interest without further action or formality. Notice of any such declaration shall promptly be given to all other Noteholders by the Issuer.

In these Conditions, "**Guarantee**" means any guarantee of or indemnity in respect of indebtedness or other like obligation.

10.2 Withdrawal of Declaration of Acceleration

If the Issuer receives notice in writing from holders of at least 50% in aggregate principal amount of the outstanding Notes to the effect that the Event of Default or Events of Default giving rise to any above mentioned declaration of acceleration is or are cured following any such declaration and that such holders wish the relevant declaration to be withdrawn, the Issuer shall give notice thereof to the Noteholders (with a copy to the Fiscal Agent), whereupon the relevant declaration shall be withdrawn and shall have no further effect but without prejudice to any rights or obligations which may have arisen before the Issuer gives such notice (whether pursuant to these Conditions or otherwise). No such withdrawal shall affect any other or any subsequent Event of Default or any right of any Noteholder in relation thereto.

11. REPLACEMENT OF CERTIFICATES

If any Certificate is lost, stolen, mutilated, defaced or destroyed it may be replaced at the specified office of the Registrar upon payment by the claimant of the expenses incurred in connection with the replacement and on such terms as to evidence and indemnity and/or security as the Issuer may reasonably require. Mutilated or defaced Certificates must be surrendered before replacements will be issued.

12. NOTICES

12.1 Notices to the Noteholders

All notices to the Noteholders will be valid if mailed to them by first class mail or (if posted to an address overseas) by airmail to the holders (or the first of any joint named holders) at their respective addresses in the relevant Register. The Issuer shall also ensure that notices are duly given or published in a manner which complies with the rules and regulations of any stock exchange or other relevant authority on which the Notes are for the time being listed. Any notice shall be deemed to have been given on the second day after being so mailed or on the date of publication or, if so published more than once or on different dates, on the date of the first publication.

12.2 Notices to the Issuer

All notices to the Issuer will be valid if sent to the Issuer at the Ministry of Finance and Economy of the Republic of Albania, Tirana or such other address as may be notified by the Issuer to the Noteholders in accordance with Condition 12.1.

13. MEETINGS OF NOTEHOLDERS; WRITTEN RESOLUTIONS

13.1 Convening Meetings of Noteholders; Conduct of Meetings of Noteholders; Written Resolutions

(a) The Issuer may convene a meeting of the Noteholders at any time in respect of the Notes in accordance with the Agency Agreement. The Issuer will determine the time and place of the meeting. The Issuer will notify the Noteholders of the time, place and purpose of the meeting not less than 21 and not more than 45 days before the meeting.

(b) The Issuer will convene a meeting of Noteholders if the holders of at least 10% in principal amount of the outstanding Notes (as defined in the Agency Agreement and described in Condition 13.9 below) have delivered a written request to the Issuer or the Fiscal Agent (with a copy to the Issuer) setting out the purpose of the meeting. The Fiscal Agent will agree the time and place of the meeting with the Issuer promptly. The Issuer will notify the Noteholders within 10 days of receipt of such written request of the time and place of the meeting, which shall take place not less than 21 and not more than 45 days after the date on which such notification is given.

(c) The Issuer will set the procedures governing the conduct of any meeting in accordance with the Agency Agreement. If the Agency Agreement does not include such procedures, or additional procedures are required, the Issuer will agree such procedures as are customary in the market in such a manner as to facilitate any multiple series aggregation, if in relation to a Reserved Matter the Issuer proposes any modification to the terms and conditions of, or action with respect to, two or more series of debt securities issued by it.

(d) The notice convening any meeting will specify, *inter alia*;

- (i) the date, time and location of the meeting;
- (ii) the agenda and the text of any Extraordinary Resolution to be proposed for adoption at the meeting;
- (iii) the modification record date for the meeting, which shall be no more than five business days before the date of the meeting;
- (iv) the documentation required to be produced by a Noteholder in order to be entitled to participate at the meeting or to appoint a proxy to act on the Noteholder's behalf at the meeting;
- (v) any time deadline and procedures required by any relevant international and/or domestic clearing systems or similar through which the Notes are traded and/or held by Noteholders;
- (vi) whether Condition 13.2 or Condition 13.3 or Condition 13.4 shall apply and, if relevant, in relation to which other series of debt securities it applies;
- (vii) if the proposed modification or action relates to two or more series of debt securities issued by the Issuer and contemplates such series of debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group of debt securities;
- (viii) such information that is required to be provided by the Issuer in accordance with Condition 13.6;

(ix) the identity of the Aggregation Agent and the Calculation Agent, if any, for any proposed modification or action to be voted on at the meeting, and the details of any applicable methodology referred to in Condition 13.7; and

(x) any additional procedures which may be necessary and, if applicable, the conditions under which a multiple series aggregation will be deemed to have been satisfied if it is approved as to some but not all of the affected series of debt securities.

(e) In addition, the Agency Agreement contains provisions relating to Written Resolutions. All information to be provided pursuant to Condition 13.1(d) shall also be provided, *mutatis mutandis*, in respect of Written Resolutions.

(f) A "**modification record date**" in relation to any proposed modification or action means the date fixed by the Issuer for determining the Noteholders and, in the case of a multiple series aggregation, the holders of debt securities of each other affected series that are entitled to vote on a Multiple Series Single Limb Extraordinary Resolution or a Multiple Series Two Limb Extraordinary Resolution, or to sign a Multiple Series Single Limb Written Resolution or a Multiple Series Two Limb Written Resolution.

(g) An "**Extraordinary Resolution**" means any of a Single Series Extraordinary Resolution, a Multiple Series Single Limb Extraordinary Resolution and/or a Multiple Series Two Limb Extraordinary Resolution, as the case may be.

(h) A "**Written Resolution**" means any of a Single Series Written Resolution, a Multiple Series Single Limb Written Resolution and/or a Multiple Series Two Limb Written Resolution, as the case may be.

(i) Any reference to "**debt securities**" means any notes (including the Notes), bonds, debentures or other debt securities issued by the Issuer in one or more series with an original stated maturity of more than one year.

(j) "**Debt Securities Capable of Aggregation**" means those debt securities which include or incorporate by reference this Condition 13 and Condition 14 or provisions substantially in these terms which provide for the debt securities which include such provisions to be capable of being aggregated for voting purposes with other series of debt securities.

13.2 Modification of this Series of Notes only

(a) Any modification of any provision of, or any action in respect of, the Notes, the Agency Agreement and/or the Deed of Covenant may be made or taken if approved by a Single Series Extraordinary Resolution or a Single Series Written Resolution as set out below.

(b) A "**Single Series Extraordinary Resolution**" means a resolution passed at a meeting of Noteholders duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 13.1 by a majority of:

(i) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or

(ii) in the case of a matter other than a Reserved Matter, more than 50% of the aggregate principal amount of the outstanding Notes.

(c) A "**Single Series Written Resolution**" means a resolution in writing signed or confirmed in writing by or on behalf of the holders of:

(i) in the case of a Reserved Matter, at least 75% of the aggregate principal amount of the outstanding Notes; or

(ii) in the case of a matter other than a Reserved Matter more than 50% of the aggregate principal amount of the outstanding Notes.

Any Single Series Written Resolution may be contained in one document or several documents in the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders.

(d) Any Single Series Extraordinary Resolution duly passed or Single Series Written Resolution approved shall be binding on all Noteholders, whether or not they attended any meeting, whether or not they voted in favour thereof and whether or not they signed or confirmed in writing any such Single Series Written Resolution, as the case may be.

13.3 Multiple Series Aggregation – Single limb voting

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Single Limb Extraordinary Resolution or by a Multiple Series Single Limb Written Resolution as set out below, provided that the Uniformly Applicable condition is satisfied.

(b) A "**Multiple Series Single Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate).

(c) A "**Multiple Series Single Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of at least 75% of the aggregate principal amount of the outstanding debt securities of all affected series of Debt Securities Capable of Aggregation (taken in aggregate). Any Multiple Series Single Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of debt securities.

(d) Any Multiple Series Single Limb Extraordinary Resolution duly passed or Multiple Series Single Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Single Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.

(e) The "**Uniformly Applicable**" condition will be satisfied if:

(i) the holders of all affected series of Debt Securities Capable of Aggregation are invited to exchange, convert, or substitute their debt securities, on the same terms, for (A) the same new instrument or other consideration or (B) a new instrument, new instruments or other consideration from an identical menu of instruments or other consideration; or

(ii) the amendments proposed to the terms and conditions of each affected series of Debt Securities Capable of Aggregation would, following implementation of such amendments, result in the amended instruments having identical provisions (other than provisions which are necessarily different, having regard to different currency of issuance).

(f) It is understood that a proposal under paragraph 13.3(a) above will not be considered to satisfy the Uniformly Applicable condition if each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation (or, where a menu of instruments or other consideration is offered, each exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation is not offered the same amount of consideration per amount of principal, the same amount of consideration per amount of interest accrued but unpaid and the same amount of consideration per amount of past due interest, respectively, as that offered to each other exchanging, converting, substituting or amending holder of each affected series of Debt Securities Capable of Aggregation electing the same option from such menu of instruments).

(g) Any modification or action proposed under Condition 13.3(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.3 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.4 Multiple Series Aggregation – Two limb voting

(a) In relation to a proposal that includes a Reserved Matter, any modification to the terms and conditions of, or any action with respect to, two or more series of Debt Securities Capable of Aggregation may be made or taken if approved by a Multiple Series Two Limb Extraordinary Resolution or by a Multiple Series Two Limb Written Resolution as set out below.

(b) A "**Multiple Series Two Limb Extraordinary Resolution**" means a resolution considered at separate meetings of the holders of each affected series of Debt Securities Capable of Aggregation, duly convened and held in accordance with the procedures prescribed by the Issuer pursuant to Condition 13.1, as supplemented if necessary, which is passed by a majority of:

(i) at least two thirds of the aggregate principal amount of the outstanding debt securities of affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

(c) A "**Multiple Series Two Limb Written Resolution**" means each resolution in writing (with a separate resolution in writing or multiple separate resolutions in writing distributed to the holders of each affected series of Debt Securities Capable of Aggregation, in accordance with the applicable bond documentation) which, when taken together, has been signed or confirmed in writing by or on behalf of the holders of:

(i) at least two thirds of the aggregate principal amount of the outstanding debt securities of all the affected series of Debt Securities Capable of Aggregation (taken in aggregate); and

(ii) more than 50% of the aggregate principal amount of the outstanding debt securities in each affected series of Debt Securities Capable of Aggregation (taken individually).

Any Multiple Series Two Limb Written Resolution may be contained in one document or several documents in substantially the same form, each signed or confirmed in writing by or on behalf of one or more Noteholders or one or more holders of each affected series of Debt Securities Capable of Aggregation.

(d) Any Multiple Series Two Limb Extraordinary Resolution duly passed or Multiple Series Two Limb Written Resolution approved shall be binding on all Noteholders and holders of each other affected series of Debt Securities Capable of Aggregation, whether or not they attended any meeting, whether or not they voted in favour thereof, whether or not any other holder or holders of the same series voted in favour thereof and whether or not they signed or confirmed in writing any such Multiple Series Two Limb Written Resolution, as the case may be, and on all couponholders (where applicable) of each other affected series of Debt Securities Capable of Aggregation.

(e) Any modification or action proposed under Condition 13.4(a) may be made in respect of some series only of the Debt Securities Capable of Aggregation and, for the avoidance of doubt, the provisions described in this Condition 13.4 may be used for different groups of two or more series of Debt Securities Capable of Aggregation simultaneously.

13.5 Reserved Matters

In these Conditions, "**Reserved Matter**" means any proposal:

(a) to change the date, or the method of determining the date, for payment of principal, interest or any other amount in respect of the Notes, to reduce or cancel the amount of principal, interest or any other amount payable on any date in respect of the Notes or to change the method of calculating the amount of principal, interest or any other amount payable in respect of the Notes on any date;

(b) to change the currency in which any amount due in respect of the Notes is payable or the place in which any payment is to be made;

(c) to change the majority required to pass an Extraordinary Resolution, a Written Resolution or any other resolution of Noteholders or the number or percentage of votes required to be cast, or the number or percentage of Notes required to be held, in connection with the taking of any decision or action by or on behalf of the Noteholders or any of them;

(d) to change this definition, or the definition of "Extraordinary Resolution", "Single Series Extraordinary Resolution", "Multiple Series Single Limb Extraordinary Resolution", "Multiple Series Two Limb Extraordinary Resolution", "Written Resolution", "Single Series Written Resolution", "Multiple Series Single Limb Written Resolution" or "Multiple Series Two Limb Written Resolution";

(e) to change the definition of "debt securities" or "Debt Securities Capable of Aggregation";

(f) to change the definition of "Uniformly Applicable";

(g) to change the definition of "outstanding" or to modify the provisions of Condition 13.9;

(h) to change the legal ranking of the Notes;

(i) to change any provision of the Notes describing circumstances in which Notes may be declared due and payable prior to their scheduled maturity date, set out in Condition 10.1;

(j) to change the law governing the Notes, the courts or arbitral tribunals to the jurisdiction of which the Issuer has submitted in the Notes, any of the arrangements specified in the Notes to enable proceedings to be taken or the Issuer's waiver of immunity, in respect of actions or proceedings brought by any Noteholder, set out in Condition 17;

(k) to impose any condition on or otherwise change the Issuer's obligation to make payments of principal, interest or any other amount in respect of the Notes, including by way of the addition of a call option;

(l) to modify the provisions of this Condition 13.5;

(m) except as permitted by any related guarantee or security agreement, to release any agreement guaranteeing or securing payments under the Notes or to change the terms of any such guarantee or security; or

(n) to exchange or substitute all the Notes for, or convert all the Notes into, other obligations or securities of the Issuer or any other person, or to modify any provision of these Conditions in connection with any exchange or substitution of the Notes for, or the conversion of the Notes into, any other obligations or securities of the Issuer or any other person, which would result in the Conditions as so modified being less favourable to the Noteholders which are subject to the Conditions as so modified than:

  (i) the provisions of the other obligations or debt securities of the Issuer or any other person resulting from the relevant exchange or substitution or conversion; or

  (ii) if more than one series of other obligations or debt securities results from the relevant exchange or substitution or conversion, the provisions of the resulting series of debt securities having the largest aggregate principal amount.

13.6 Information

Prior to or on the date that the Issuer proposes any Extraordinary Resolution or Written Resolution pursuant to Condition 13.2, Condition 13.3 or Condition 13.4, the Issuer shall publish in accordance with Condition 14, the following information:

(a) a description of the Issuer's economic and financial circumstances which are, in the Issuer's opinion, relevant to the request for any potential modification or action, a description of the Issuer's existing debts and a description of its broad policy reform programme and provisional macroeconomic outlook;

(b) if the Issuer shall at the time have entered into an arrangement for financial assistance with multilateral and/or other major creditors or creditor groups and/or an agreement with any such creditors regarding debt relief, a description of any such arrangement or agreement. Where permitted under the information disclosure policies of the multilateral or such other creditors, as applicable, copies of the arrangement or agreement shall be provided;

(c) a description of the Issuer's proposed treatment of external debt securities that fall outside the scope of any multiple series aggregation and its intentions with respect to any other debt securities and its other major creditor groups; and

(d) if any proposed modification or action contemplates debt securities being aggregated in more than one group of debt securities, a description of the proposed treatment of each such group, as required for a notice convening a meeting of the Noteholders in Condition 13.1(d)(vii).

13.7 Claims Valuation

For the purpose of calculating the par value of the Notes and any affected series of debt securities which are to be aggregated with the Notes in accordance with Condition 13.3 and 13.4, the Issuer may appoint a Calculation Agent. The Issuer shall, with the approval of the Aggregation Agent and any appointed Calculation Agent, promulgate the methodology in accordance with which the par value of the Notes and such affected series of debt securities will be calculated. In any such case where a Calculation Agent is appointed, the same person will be appointed as the Calculation Agent for the Notes and each other affected series of debt securities for these purposes, and the same methodology will be promulgated for each affected series of debt securities.

13.8 Manifest error, etc.

The Notes, these Conditions and the provisions of the Agency Agreement and the Deed of Covenant may be amended by the Issuer without the consent of the Noteholders to correct a manifest error. In addition, the parties to the Agency Agreement may agree to modify any provision thereof, but the Issuer shall not agree, without the consent of the Noteholders, to any such modification unless it is of a formal, minor or technical nature or it is not in the sole opinion of the Issuer materially prejudicial to the interests of the Noteholders.

13.9 Notes controlled by the Issuer

For the purposes of: (i) determining the right to attend and vote at any meeting of Noteholders, or the right to sign or confirm in writing, or authorise the signature of, any Written Resolution; (ii) this Condition 13; and (iii) Condition 10, any Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer shall be disregarded and be deemed not to remain outstanding, where:

(a) "**public sector instrumentality**" means the Bank of Albania, the Albanian Ministry of Finance and Economy, any other department, ministry or agency of the government of the Republic of Albania or any corporation, trust, financial institution or other entity owned or controlled by the government of the Republic of Albania or any of the foregoing; and

(b) "**control**" means the power, directly or indirectly, through the ownership of voting securities or other ownership interests or through contractual control or otherwise, to direct the management of or elect or appoint a majority of the board of directors or other persons performing similar functions in lieu of, or in addition to, the board of directors of a corporation, trust, financial institution or other entity.

A Note will also be deemed to be not outstanding if the Note has previously been cancelled or delivered for cancellation or held for reissuance but not reissued, or, where relevant, the Note has previously been called for redemption in accordance with its terms or previously become due and payable at maturity or otherwise and the Issuer has previously satisfied its obligations to make all payments due in respect of the Note in accordance with its terms.

In advance of any meeting of Noteholders, or in connection with any Written Resolution, the Issuer shall make available to Noteholders a copy of the certificate prepared pursuant to Condition 14.4, which includes information on the total number of Notes which are for the time being held by or on behalf of the Issuer or by or on behalf of any person which is owned or controlled directly or indirectly by the Issuer or by any public sector instrumentality of the Issuer and, as such, such Notes shall be disregarded and deemed not to remain outstanding for the purposes of ascertaining the right to attend and vote at any meeting of Noteholders or the right to sign, or authorise the signature of, any Written Resolution in respect of any such meeting. The Issuer shall make any such certificate available for inspection during normal business hours at the specified office of the Fiscal Agent and, upon reasonable request, will allow copies of such certificate to be taken.

13.10 Publication

The Issuer shall publish all Extraordinary Resolutions and Written Resolutions which have been determined by the Aggregation Agent to have been duly passed in accordance with Condition 14.7.

13.11 Exchange and Conversion

Any Extraordinary Resolutions or Written Resolutions which have been duly passed and which modify any provision of, or action in respect of, the Conditions may be implemented at the Issuer's option by way of a mandatory exchange or conversion of the Notes and each other affected series of debt securities, as the case may be, into new debt securities containing the modified terms and conditions if the proposed mandatory exchange or conversion of the Notes is notified to Noteholders at the time notification is given to the Noteholders as to the proposed modification or action. Any such exchange or conversion shall be binding on all Noteholders.

14. AGGREGATION AGENT; AGGREGATION PROCEDURES

14.1 Appointment

The Issuer will appoint an Aggregation Agent to calculate whether a proposed modification or action has been approved by the required principal amount outstanding of Notes, and, in the case of a multiple series aggregation, by the required principal amount of outstanding debt securities of each affected series of debt securities. In the case of a multiple series aggregation, the same person will be appointed as the Aggregation Agent for the proposed modification of any provision of, or any action in respect of, these Conditions or the Agency Agreement in respect of the Notes and in respect of the terms and conditions or bond documentation in respect of each other affected series of debt securities. The Aggregation Agent shall be independent of the Issuer.

14.2 Extraordinary Resolutions

If an Extraordinary Resolution has been proposed at a duly convened meeting of Noteholders to modify any provision of, or action in respect of, these Conditions and other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as practicable after the time the vote is cast, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have voted in favour of the Extraordinary Resolution such that the Extraordinary Resolution is passed. If so, the Aggregation Agent will determine that the Extraordinary Resolution has been duly passed.

14.3 Written Resolutions

If a Written Resolution has been proposed under the terms of these Conditions to modify any provision of, or action in respect of, these Conditions and the terms and conditions of other affected series of debt securities, as the case may be, the Aggregation Agent will, as soon as reasonably practicable after the relevant Written Resolution has been signed or confirmed in writing, calculate whether holders of a sufficient portion of the aggregate principal amount of the outstanding Notes and, where relevant, each other affected series of debt securities, have signed or confirmed in writing in favour of the Written Resolution such that the Written

Resolution is passed. If so, the Aggregation Agent will determine that the Written Resolution has been duly passed.

14.4 Certificate

For the purposes of Condition 14.2 and 14.3, the Issuer will provide a certificate to the Aggregation Agent up to three days prior to, and in any case no later than, with respect to an Extraordinary Resolution, the date of the meeting referred to in Condition 13.2, Condition 13.3 or Condition 13.4, as applicable, and, with respect to a Written Resolution, the date arranged for the signing of the Written Resolution.

The certificate shall:

(a) list the total principal amount of Notes and, in the case of a multiple series aggregation, the total principal amount of each other affected series of debt securities outstanding on the modification record date; and

(b) clearly indicate the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities which shall be disregarded and deemed not to remain outstanding as a consequence of Condition 13.9 on the modification record date identifying the holders of the Notes and, in the case of a multiple series aggregation, debt securities of each other affected series of debt securities.

The Aggregation Agent may rely upon the terms of any certificate, notice, communication or other document believed by it to be genuine.

14.5 Notification

The Aggregation Agent will cause each determination made by it for the purposes of this Condition 14 to be notified to the Fiscal Agent and the Issuer as soon as practicable after such determination. Notice thereof shall also promptly be given to the Noteholders.

14.6 Binding nature of determinations; no liability

All notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained for the purposes of this Condition 14 by the Aggregation Agent and any appointed Calculation Agent will (in the absence of manifest error) be binding on the Issuer, the Fiscal Agent and the Noteholders and (subject as aforesaid) no liability to any such person will attach to the Aggregation Agent or the Calculation Agent in connection with the exercise or non-exercise by it of its powers, duties and discretions for such purposes.

14.7 Manner of publication

The Issuer will publish all notices and other matters required to be published pursuant to the Agency Agreement including any matters required to be published pursuant to Condition 10, Condition 13, this Condition 14:

(a) on the website of the Albanian Ministry of Finance and Economy;

(b) through the systems of Clearstream Banking, S.A. and Euroclear Bank SA/NV and/or any other international or domestic clearing system(s) through which the Notes are for the time being cleared;

(c) in such other places and in such other manner as may be required by applicable law or regulation; and

(d) in such other places and in such other manner as may be customary.

15. CURRENCY INDEMNITY

If any sum due from the Issuer in respect of the Notes or any order or judgment given or made in relation thereto has to be converted from the currency (the "**first currency**") in which the same is payable under these Conditions or such order or judgment into another currency (the "**second currency**") for the purpose of (a) making or filing a claim or proof against the Issuer, (b) obtaining an order or judgment in any court or other tribunal or (c) enforcing any order or judgment given or made in relation to the Notes, the Issuer shall indemnify each Noteholder, on the written demand of such Noteholder addressed to the Issuer and delivered to the Issuer or to the specified office of the Fiscal Agent, against any loss suffered as a result of any discrepancy between (i) the rate of exchange used for such purpose to convert the sum in question from the first currency into the second currency and (ii) the rate or rates of exchange at which such Noteholder may in the ordinary course of business purchase the first currency with the second currency upon receipt of a sum paid to it in satisfaction, in whole or in part, of any such order, judgment, claim or proof.

This indemnity constitutes a separate and independent obligation of the Issuer and shall give rise to a separate and independent cause of action.

16. FURTHER ISSUES

The Issuer may from time-to-time without the consent of the Noteholders create and issue further notes, having terms and conditions the same as those of the Notes or the same except for the amount of the first payment of interest, which may be consolidated and form a single series with the outstanding Notes.

17. GOVERNING LAW, ARBITRATION AND SUBMISSION TO JURISDICTION

17.1 Governing Law

The Notes, the Agency Agreement and the Deed of Covenant, and any non-contractual obligations arising out of, or in connection with, the Notes, the Agency Agreement and the Deed of Covenant, are governed by, and will be construed in accordance with, English law.

17.2 Arbitration

Subject to Condition 17.3, any dispute arising out of or in connection with the Notes (including any dispute as to their existence, validity, interpretation, performance, breach or termination or the consequences of their nullity and any dispute relating to any non-contractual obligation arising out of or in connection with the Notes) (a "**Dispute**") shall be referred to and finally resolved by arbitration under the Rules of Arbitration of the International Chamber of Commerce (the "**Rules**"), which Rules are deemed to be incorporated by reference into this Condition.

(a) The arbitral tribunal shall consist of three arbitrators, each of whom shall be disinterested in the Dispute, shall have no connection with any party thereto and shall be an attorney experienced in international securities transactions.

(b) The claimant(s), irrespective of number, shall nominate jointly one arbitrator and the respondent(s), irrespective of number, shall nominate jointly the second arbitrator, in accordance with the Rules, for confirmation by the ICC Court. If a party or parties fail(s) to nominate an arbitrator, the appointment shall be made by the ICC Court. The third arbitrator, who shall serve as president of the arbitral tribunal, shall be nominated, for confirmation by the ICC Court, by agreement of the two party-nominated arbitrators within 15 days of the nomination of the second arbitrator, or, in default of such agreement, shall be appointed by the ICC Court as soon as possible.

(c) The seat and place of arbitration shall be London, United Kingdom.

(d) The language of the arbitration shall be English.

17.3 Jurisdiction

(a) At any time before any Noteholder has nominated an arbitrator to resolve any Dispute(s) pursuant to Condition 17.2, that Noteholder or any other Noteholder, at its sole option, may elect by notice in writing to the Issuer that such Dispute(s) shall instead be heard by the courts of England or by any other court of competent jurisdiction, as more particularly described in Condition 17.3(b)(iii). Following any such election, no arbitral tribunal shall have jurisdiction in respect of any Dispute(s).

(b) In the event that any Noteholder issues a notice pursuant to Condition 17.3(a), the following provisions shall apply:

(i) subject to Condition 17.3(b)(iii), the courts of England shall have exclusive jurisdiction to settle any Dispute and each of the Issuer and any Noteholders in relation to any Dispute submits to the exclusive jurisdiction of the English courts;

(ii) the Issuer agrees that the courts of England are the most appropriate and convenient courts to settle any Dispute and, accordingly, that it will not argue to the contrary; and

(iii) this Condition 17.3(b) is for the benefit of the Noteholders only. As a result, and notwithstanding Condition 17.3(b)(i), to the extent allowed by law, each Noteholder may, in respect of any Dispute or Disputes, take (A) proceedings relating to a Dispute ("**Proceedings**") in any other court with jurisdiction; and (B) concurrent Proceedings in any number of jurisdictions.

17.4 Appointment of Process Agent

The Issuer irrevocably appoints the Ambassador of the Republic of Albania to the Court of St. James's currently residing at the Embassy of the Republic of Albania, at 33 St. George's Drive, London SW1V 4DG, United Kingdom as its agent for service of process in England and agrees that, in the event of the Ambassador of the Republic of Albania being unable or unwilling for any reason so to act, it will immediately appoint another person as its agent for service of process in England in respect of any Proceedings or Disputes. The Issuer agrees that failure by a process agent to notify it of any process will not invalidate service. Nothing in this Condition shall affect the right to serve process in any other manner permitted by law.

17.5 Waiver of Immunity

The Issuer irrevocably and unconditionally with respect to any Dispute: (a) waives any right to claim sovereign or other immunity from jurisdiction, recognition or enforcement and any similar argument in any jurisdiction; (b) submits to the jurisdiction of the English courts and the courts of any other jurisdiction in relation to the recognition of any judgment or order of the English courts or the courts of any competent jurisdiction in relation to any Dispute; and (c) consents to the giving of any relief (whether by way of injunction, attachment, specific performance or other relief) or the issue of any related process, in any jurisdiction, whether before or after final judgment, including, without limitation, the making, enforcement or execution against any property whatsoever (irrespective of its use or intended use) of any order or judgment made or given in connection with any Dispute, provided, however, that the Issuer does not waive any immunity in respect of: (i) present or future "premises of the mission" as defined in Vienna Convention on Diplomatic Relations signed in 1961, present or future "consular premises" as defined in Vienna Convention on Consular Relations signed in 1963 or otherwise used by a diplomat or diplomatic mission of Albania or any agency or instrumentality thereof; or (ii) any immovable property which falls under provisions of paragraph 1 to 3 of article 3 of Albanian Law № 8743, dated 22 February 2001 "On the state immovable properties".

17.6 Other Documents

The Issuer has in the Agency Agreement and the Deed of Covenant submitted to the jurisdiction of the ICC and the English courts and appointed an agent in England for service of process in terms substantially similar to those set out above. In addition, the Issuer has, in such documents, waived any rights to sovereign immunity and other similar defences which it may have, in terms substantially similar to those set out above.

18. RIGHTS OF THIRD PARTIES

No rights are conferred on any person under the Contracts (Rights of Third Parties) Act 1999 to enforce any term of this Note, but this does not affect any right or remedy of any person which exists or is available apart from that Act.

THE GLOBAL CERTIFICATES

The Global Certificates contain the following provisions, which apply to the Notes in respect of which they are issued while they are represented by the Global Certificates, some of which modify the effect of the Conditions. Terms defined in the Conditions have the same meaning in paragraphs 1 to 8 below.

1. FORM OF THE NOTES

The Regulation S Notes will be represented on issue by the Unrestricted Global Certificate, and the Rule 144A Notes will be represented on issue by the Restricted Global Certificate, each of which will be registered in the name of a nominee of, and delivered to, a common depositary for Euroclear and Clearstream, Luxembourg.

Beneficial interests in a Global Certificate may be held only through Euroclear or Clearstream, Luxembourg or their participants at any time. The Global Certificates will each have an ISIN and a Common Code. Beneficial interests in the Restricted Global Certificate (and any individual Certificates issued in exchange therefor) will be subject to certain restrictions on transfer contained in a legend appearing on the face of each such Certificate, as set out therein and under "*Transfer Restrictions*".

Except in the limited circumstances described below, owners of beneficial interests in the Global Certificates will not be entitled to receive physical delivery of individual certificates in definitive form.

Book-entry interests in the Restricted Global Certificate ("**restricted book-entry interests**") may be transferred to a person who takes delivery in the form of book-entry interests in the Unrestricted Global Certificate ("**unrestricted book-entry interests**") only upon delivery by the transferor of a written certification (in the form provided in the Agency Agreement) to the effect that the transfer is made in accordance with Regulation S and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Unrestricted book-entry interests may be transferred to a person who takes delivery in the form of restricted book-entry interests only upon delivery by the transferor of a written certification to the effect that the transfer is being made to a person who the transferor reasonably believes is a qualified institutional buyer within the meaning of Rule 144A in a transaction meeting the requirements of Rule 144A and in accordance with any applicable securities laws of any state of the United States or any other jurisdiction.

Any book-entry interest in one of the Global Certificates that is transferred to a person who takes delivery in the form of a book-entry interest in the other Global Certificate will, upon transfer, cease to be a book-entry interest in the first-mentioned Global Certificate and become a book-entry interest in the other Global Certificate, and accordingly, will thereafter be subject to all transfers, if any, and other procedures applicable to book-entry interest in that other Global Certificate for as long as that person retains the book-entry interests.

2. ACCOUNTHOLDERS

For so long as any of the Notes are represented by the Global Certificates, each person (other than another clearing system) who is for the time being shown in the records of Euroclear or Clearstream, Luxembourg (as the case may be) as the holder of a particular aggregate principal amount of such Notes (each an "**Accountholder**") (in which regard any certificate or other document issued by Euroclear or Clearstream, Luxembourg (as the case may be) as to the aggregate principal amount of such Notes standing to the account of any person shall be conclusive and binding for all purposes) shall be treated as the holder of such aggregate principal amount of such Notes (and the expression "**Noteholders**" and references to "**holding of Notes**" and to "**holder of Notes**" shall be construed accordingly) for all purposes other than with respect to payments on such Notes, the right to which shall be vested, as against the Republic, solely in the nominee for the clearing systems named in the relevant Register (the "**Nominee**") in accordance with and subject to the terms of the Global Certificates. Each Accountholder must look solely to Euroclear or Clearstream, Luxembourg, as the case may be, for its share of each payment made to the Nominee.

3. CANCELLATION

Cancellation of any Note following its redemption or purchase by the Republic will be effected by reduction in the aggregate principal amount of the Notes in the relevant Register and by the annotation of the appropriate schedule to the relevant Global Certificate.

4. PAYMENTS

Payments of principal and interest in respect of Notes represented by a Global Certificate will be made upon presentation or, if no further payment falls to be made in respect of the Notes, against presentation and surrender of such Global Certificate to or to the order of the Fiscal Agent or such other Agent as shall have been notified to the holders of the Global Certificates for such purpose.

Distributions of amounts with respect to book-entry interests in the Global Certificates held through Euroclear or Clearstream, Luxembourg will be credited, to the extent received by the Fiscal Agent, to the cash accounts of Euroclear or Clearstream, Luxembourg participants in accordance with the relevant system's rules and procedures.

A record of each payment made will be endorsed on the appropriate schedule to the relevant Global Certificate by or on behalf of the Fiscal Agent and shall be *prima facie* evidence that payment has been made.

All payments in respect of Notes represented by a Global Certificate will be made to, or to the order of, the person whose name is entered on the relevant Register at the close of business on the Clearing System Business Day immediately prior to the date for payment, where "**Clearing System Business Day**" means Monday to Friday inclusive except 25 December and 1 January.

5. INTEREST CALCULATION

For so long as Notes are evidenced by a Global Certificate, interest payable to the Nominee will be calculated by applying the Rate of Interest to the outstanding principal amount of the Notes evidenced by the relevant Global Certificate and on the basis of (a) the actual number of days in the period from, and including, the Accrual Date to, but excluding, the date on which it falls due, divided by (b) the actual number of days from, and including, the Accrual Date to, but excluding, the next following Interest Payment Date. The resultant figure shall be rounded to the nearest cent (half a cent being rounded upwards).

6. NOTICES

So long as the Notes are represented by a Global Certificate or Global Certificates and such Global Certificate(s) is/are held on behalf of Euroclear and/or Clearstream, Luxembourg, notices to Noteholders may be given by delivery of the relevant notice to Euroclear and Clearstream, Luxembourg for communication by them to entitled Accountholders in substitution for notification as required by Condition 12 (*Notices*) except that, so long as the Notes are listed on any stock exchange, notices shall also be published in accordance with the rules of such exchange. Any such notice shall be deemed to have been given to the Noteholders on the day after the day on which such notice is delivered to Euroclear and Clearstream, Luxembourg as aforesaid.

Whilst any of the Notes held by a Noteholder are represented by a Global Certificate, notices to be given by such Noteholder may be given by such Noteholder (where applicable) through Euroclear or Clearstream, Luxembourg, as applicable, in accordance with its standard rules and procedures and otherwise in such manner as the Fiscal Agent and the applicable clearing system may approve for this purpose.

7. REGISTRATION OF TITLE

The Registrar will not register title to the Notes in a name other than that of the Nominee for a period of 15 calendar days preceding the due date for any payment of principal or interest in respect of the Notes.

8. EXCHANGE FOR CERTIFICATES

Exchange

The Restricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for individual Certificates ("**Restricted Certificates**") and the Unrestricted Global Certificate will be exchangeable, free of charge to the holder, in whole but not in part, for individual Certificates (the "**Unrestricted Certificates**" and, together with the Restricted Certificates, the "**Certificates**") upon the occurrence of an Exchange Event.

For these purposes an "**Exchange Event**" means that:

(a) circumstances described in Condition 10 (*Events of Default*) have occurred; or

(b) Euroclear or Clearstream, Luxembourg is closed for business for a continuous period of 14 days (other than by reason of holiday, statutory or otherwise) or announces that it is permanently to cease business or does in fact do so and no successor or alternative clearing system is available; or

provided that, in the case of any exchange pursuant to (b) above, the holder has given the Registrar not less than 30 days' notice at its specified office of such holder's intention to effect such exchange.

In exchange for the relevant Global Certificate, as provided in the Agency Agreement, the Registrar will deliver or procure the delivery of an equal aggregate principal amount of duly executed Certificates in or substantially in the form set out in the Agency Agreement.

Delivery

In such circumstances, the relevant Global Certificate shall be exchanged in full for Certificates and the Republic will, at the cost of the Republic (but against such indemnity and/or security as the Registrar or Transfer Agent may require in respect of any tax or other duty of whatever nature which may be levied or imposed in connection with such exchange), cause sufficient Certificates to be executed and delivered to the Registrar for completion and dispatch to the relevant Noteholders. A person having an interest in a Global Certificate must provide the Registrar with (a) a written order containing instructions and such other information as the Republic and the Registrar may require to complete, execute and deliver such Certificates and (b) in the case of the Restricted Global Certificate only, a fully completed, signed certification substantially to the effect that the exchanging holder is not transferring its interest at the time of such exchange or, in the case of simultaneous sale pursuant to Rule 144A, a certification that the transfer is being made in compliance with the provisions of Rule 144A to a purchaser that the transferor reasonably believes to be a QIB. Restricted Certificates issued in exchange for a beneficial interest in a Restricted Global Certificate shall bear the legend applicable to transfers pursuant to Rule 144A, as set out under "*Transfer Restrictions*".

Legends

Upon the transfer, exchange or replacement of a Restricted Certificate bearing the legend referred to under "*Transfer Restrictions*" below, or upon specific request for removal of the legend on a Restricted Certificate, the Republic will deliver only Restricted Certificates that bear such legend, or will refuse to remove such legend, as the case may be, unless there is delivered to the Republic and the Registrar such satisfactory evidence, which may include an opinion of counsel, as may reasonably be required by the Republic that neither the legend nor the restrictions on transfer set forth therein are required to ensure compliance with the Securities Act.

USE OF PROCEEDS

The net proceeds of the issue of the Notes will be used by the Issuer to re-purchase and cancel up to €200 million of its outstanding €450,000,000 5.75% Notes due 2020 (the "**2020 Notes**") as part of a cash tender offer (the "**Tender Offer**") being conducted by the Issuer concurrently with the issuance of the Notes, and for general budgetary support, including allocations to pre-finance the 2019 and 2020 budgets and the repayment of indebtedness.

THE REPUBLIC OF ALBANIA

Area and Population

Albania is located in the southwestern region of the Balkan Peninsula in southeastern Europe. Albania shares a border with Greece to the south and southeast, Macedonia to the east, Kosovo to the northeast and Montenegro to the northwest. Western Albania lies along the Adriatic and Ionian Sea coastlines. The Adriatic Sea separates Albania from Italy via the Strait of Otranto. Albania covers an area of approximately 28,748 square kilometers. Its territory is predominantly mountainous but is relatively flat along its coastline with the Adriatic Sea. Albania's primary seaport is Durres, through which, in 2017, 90.0% of Albania's maritime cargo is transported. The capital city of Albania is Tirana, which is located in the central area of the country.

According to statistics published by INSTAT, as at 1 January 2018, the population of Albania was 2.8 million, of which 57.4% lived in urban areas (with 31.0% of the population resident in Tirana). According to data from the 2011 census (the most recently-completed national census), the ethnic composition of the population was predominantly ethnic Albanian (estimated to comprise 82.6% of the population), with ethnic Greeks making up the next largest group (0.9%). Albanian is the official language of Albania. According to data from the 2011 census, in 2011, fertility rates declined to below the population replacement rate. According to data published by INSTAT and the International Organisation for Migration, emigration from Albania, primarily by professionals due to economic factors, was one of the major reasons for the decline in the population in Albania between the 2001 and the 2011 censuses. Emigration of professionals has continued since 2011. See "*Risk Factors—Risks relating to Albania—Albania faces socio-economic challenges, including high levels of emigration, an ageing population and high youth unemployment*". Albania was ranked 68th out of 189 countries on the 2017 Human Development Index published by the UN Development Programme ("**UNDP**"), as compared to 69th on the 2016 Human Development Index and 95th on the 2013 Human Development Index.

Albania is a self-proclaimed secular state, which, pursuant to Article 10 of the Constitution, allows freedom of religion. According to statistics published by the United Nations Statistics Division in 2013, the predominant religions in Albania are Islam (estimated to comprise 56.7% of the population), including Sunni Islam and members of the Bektashi Order, Roman Catholic (10.0%) and Albanian Orthodox (6.7%).

History

Albanians descend from a non-Slavic, non-Turkish group of tribes known as Illyrians who arrived in the Balkans around 2000 B.C. After falling under Roman authority in 165 B.C., Albania has had only brief periods of self-rule.

Following the division of the Roman Empire in 395 A.D., the Byzantine Empire established control over present-day Albania. In the 11th century, Byzantine Emperor Alexius I Comnenus made the first-recorded reference to a distinct area of land known as Albania and to its people.

The Ottoman Empire ruled Albania from 1385 to 1912. During this time, most of the population converted to the Islamic faith; others emigrated to Italy, Greece, Egypt and Turkey. Although its control was briefly disrupted by a revolt between 1443 and 1478, which was led by Albania's national hero Gjergj Kastriot Skenderbeu, Ottoman rule was dominant for centuries.

Albania declared its independence from the Ottoman Empire in 1912 but fell under Italian control in 1939. Communist partisans took over the country in 1944. Albania was ruled by Enver Hoxha as a totalitarian Communist regime from the end of World War II until Hoxha's death in 1985. During the period of Hoxha's rule, Albania first formed an alliance with the Soviet Union until 1960 and later with China until 1978. Between 1978 and the 1990s, the Communist regime applied the principles of self-reliance and isolationism, which included the prohibition of foreign loans and foreign investment.

In the early 1990s, Albania put an end to 46 years of isolationist Communist rule and established a multi-party democracy. The new government introduced certain liberalisation measures, including granting the freedom to travel abroad in 1990, and made efforts to improve ties with foreign countries. The former Communists remained in power following elections in March 1991, but a general strike and opposition movement led to the formation of a coalition cabinet that included non-Communists. In March 1992, Sali Berisha, leader of the right-wing DPA, was elected as the first non-Communist president of Albania since World War II. The defeat of the Communists caused economic collapse and social unrest, but the newly-elected Government introduced reforms, which marked the start of Albania's transition to a market economy.

In 1996 and 1997, the rise and collapse of several large financial pyramid schemes led to riots throughout Albania, and a United Nations military peacekeeping mission led by Italy was sent to stabilise the country. The Government and President Berisha resigned, and, following the 1997 legislative elections, the Albanian Socialist Party (the "**SPA**") came to power. The SPA governed for eight years, during which several prime ministers were appointed: Bashkim Fino (from March 1997 to July 1997), Fatos Nano (from July 1997 to October 1998 and from July 2002 to September 2005), Pandeli Majko (from October 1998 to October 1999 and from February 2002 to July 2002) and Ilir Meta (from October 1999 to February 2002). Following the July 2005 elections, the DPA returned to power, with Sali Berisha again serving as Prime Minister until 2013. Since September 2013, Edi Rama, leader of the SPA, has served as Prime Minister.

In April 2009, Albania became a member of the North Atlantic Treaty Organization ("**NATO**"). See "*—International Relations—NATO*".

In the June 2009 election, the coalition known as the "Alliance for Change", led by Sali Berisha's DPA and two minor parties (the Republican Party and the Party for Justice, Integration and Unity), gained 70 seats in the 140-member Assembly. Among the coalition's 70 seats, 68 were occupied by the DPA. The SPA, led by Edi Rama, won 66 seats, while most of the small parties that had been represented in the Assembly in 2005-2009 did not win any seats in the 2009 elections. There was a prolonged political crisis following the legislative elections in June 2009, during which the SPA alleged voting irregularities in the election and boycotted the Assembly from September 2009 to May 2010. The SPA held a series of protests, where opposition supporters gathered to request a recount of the votes. The DPA responded to the SPA's protests by holding a mass rally to demonstrate its own public support in December 2009. In January 2010, the Parliamentary Assembly of the Council of Europe (the "**PACE**") adopted a resolution, which urged the SPA and the DPA to enter into a dialogue. The PACE also called on the Government to establish a parliamentary commission to investigate the allegations of electoral fraud. After several unsuccessful attempts to find a solution to this political crisis, the SPA returned to parliamentary proceedings in May 2010.

Tensions between the ruling party and the opposition increased over events in January 2011 when Dritan Prifti, Albania's former Minister of Economy, Trade, and Energy, released a video to television journalists implicating the leader of his party, the Socialist Movement for Integration ("**SMI**"), in a corruption scandal. The opposition called for protests against corruption and the political situation in the country. On 21 January 2011, thousands of people participated in a march in front of the Prime Minister's office, and Sali Berisha accused the opposition of organising a *coup d'état* with the cooperation of the President, General Prosecutor and State Secret Service. In November 2011, the DPA and the SPA agreed to jointly establish a joint parliamentary committee on electoral reform for the first time since the 2009 elections.

Prior to the 2013 elections, two major coalitions were formed: the "Alliance for a European Albania" (a coalition of 37 opposition parties varying from the far-left to the far-right, led by Edi Rama, the then leader of the opposition and leader of the SPA) and the "Alliance for Employment, Prosperity and Integration" (a coalition of 25 centrists and centre-right parties, led by Sali Berisha, the then-Prime Minister). In the June 2013 parliamentary elections, the leftwing coalition "Alliance for a European Albania" led by Edi Rama's SPA came to power. The SPA announced that it aimed to undertake further reforms that would lead to accession to the EU. In June 2014, Albania was granted EU candidate status. See "*—International Relations—European Union*".

In July 2014, the main parliamentary opposition parties boycotted the Assembly after two SPA members allegedly attacked a member of the DPA. As part of the boycott, the DPA demanded that all legislation of major significance should require more than a simple majority of votes to be passed in the Assembly. In December 2014, following the proposal of a resolution by the European Parliament, the DPA ended the boycott. The Government maintained its parliamentary majority throughout the boycott. The resolution, which was adopted by the Assembly unanimously by those present (126 members), aimed to introduce democratic standards, including not allowing the majority to use its position simply to bypass opposition and debate. The resolution also guaranteed the respect and implementation of decisions of the Constitutional Court and noted the Assembly's commitment to addressing the issue of persons with criminal records running for public office. Following implementation of this resolution and a subsequent decriminalisation law, four members of the Assembly (and one mayor) lost their public office mandates in December 2016 and January 2018.

On 5 December 2016, the President announced that parliamentary elections would be held on 18 June 2017. In February 2017, the DPA began a four-month boycott of the Assembly. The DPA and its allies announced that they would not participate in the parliamentary elections unless certain demands were met, including the resignation of the Prime Minister, the formation of a technical government and the introduction of electronic voting. The SPA rejected these demands and the opposition parties did not register for the elections by the originally-set deadline. On 13 May 2017, the DPA led a demonstration in Tirana reasserting the party's call for its demands to be met in return for its participation in the parliamentary elections.

The political deadlock ended on 18 May 2017, following EU and U.S.-led mediation efforts and entry into a cross-party political agreement (the "**May 2017 Agreement**") by the leaders of the DPA and the SPA, which granted six ministerial positions to the DPA in sectors perceived to be important to the elections. The May 2017 Agreement postponed the election until 25 June 2017 and resulted in amendments to the Criminal Code, the law on audio visual authority and the law on political parties, to increase electoral transparency and fairness. Following the May 2017 Agreement, the Government established a ministerial task force to co-ordinate governmental action with the aim of avoiding and, if necessary, reprimanding any future improper behaviour of administrative bodies in the electoral process. See "*—Government Structure and Recent Developments—Current Government*".

The parliamentary elections were held on 25 June 2017, and the SPA won 48.3% of the vote, the DPA 28.8% and the SMI 14.2%, with the remainder split among small parties. The Albanian Central Election Commission ("**CEC**") announced final voter turnout at 46.8%. Following the elections, the SPA formed the Government. See "*—Current Government*".

Government Structure and Recent Developments

Political System

Albania is a parliamentary republic based on the separation and balancing of legislative, executive and judicial powers.

Constitution

In 1925, after a period of political instability and rapid succession of governments, an Albanian Republic was declared under a constitution "based on the French model of the Third Republic". Three years later, in 1928, Albania was proclaimed a democratic and parliamentary kingdom. The legislative organ consisted of one chamber, while the executive power belonged to the King, as head of state, and the cabinet. When Albania fell under the control of Italy in 1939, the then-existing constitution was abolished, and a new constitution was proclaimed. After the liberation of Albania from Nazi occupation, the communists established the Democratic Government of Albania. On 11 January 1946, the Constitution of the People's Republic of Albania was promulgated, to which amendments were adopted in 1950. It was later replaced by the Constitution of the People's Socialist Republic of Albania on 28 December 1976, which remained in effect until 5 September 1991, when a temporary basic law was passed to legalise a pluralist system and re-establish a capitalist economy in Albania. A Constitutional Commission worked in 1993 and 1994 to develop and propose a draft new constitution.

In 1996, the Government became unstable and collapsed in March 1997. The general elections of June 1997 resulted in a majority for the socialists, with Rexhep Meidani elected as President and SPA Chairman, Fatos Nano, is elected as Prime Minister. The current Constitution was approved by the Assembly on 21 August 1998, and was ratified by referendum on 22 November 1998, with almost 90.0% of votes cast in favour.

The Constitution is the highest law in Albania and establishes the basic institutions of a democratic state. The Constitution provides for three branches of government: the legislative branch, the executive branch and the judicial branch. The Constitution provides that the official language of Albania is Albanian. The Constitution also guarantees, *inter alia:* (i) freedom of expression; (ii) freedom of conscience and of religion; (iii) the right not to be subjected to torture or cruel, inhuman or degrading punishment or treatment; (iv) the presumption of innocence; (v) the rights of the accused; (vi) the right to vote; (vii) the right to healthcare; and (viii) the right to education.

Since its adoption in 1998, the Constitution has been amended on four occasions. On 13 January 2007, the term in office of elected local government representatives was extended from three to four years, and the number of the membership of the CEC was increased from seven to nine members. In April 2008, Parliament adopted a package of constitutional amendments relating to the electoral system, the election of the President and the mandates of the Prosecutor General. Pursuant to these amendments, the Albanian electoral system changed from a mixed to a regional proportional system. In September 2012, a constitutional amendment, which was unanimously passed by the Assembly, limited the immunity of members of the Assembly. In July 2016, after 18 months of technical and political work and intensive negotiations, the Assembly approved amendments to the Constitution aimed at reforming the judiciary. The amendments related to two key areas: (i) the introduction of a re-evaluation process (or vetting process) of all judges and prosecutors; and (ii) the establishment of a special court and prosecution office to judge, investigate and prosecute high officials in cases of corruption and criminal charges in respect of organised crime. See "—*Judiciary*" and "—*Judicial Reform*".

Legislature

Legislative power is vested in the unicameral Assembly, which consists of 140 members, all of whom serve four-year terms. All 140 members are elected at the same time on the basis of a regional proportional system with zones corresponding to Albania's 12 counties. Although most legislation is passed by a simple majority of the Assembly, legislation regarding constitutional amendments and certain fundamental matters require a three-fifths majority.

Executive

The President is the Head of State and serves as Commander-in-Chief of the Army, Chair of the National Security Council and head of the High Council of Justice. The President is elected by the Assembly. The President's duties include, among other matters, addressing the Assembly, granting pardons and citizenship, giving military decorations and titles of honour and appointing and withdrawing Albania's diplomatic representatives to other states and international organisations. Although the vast majority of executive powers are vested in the Government, the Constitution gives the President the authority to appoint and dismiss certain high-ranking civil servants in the executive and judicial branches (including, with the consent of the Assembly, the judges of the Supreme Court). The President is elected by a majority of votes of the Assembly for a five-year term and may be re-elected for one further five-year term. The Assembly elected former Speaker Ilir Meta as President of Albania in April 2017.

The executive branch of the Government is made up of the Council of Ministers, which is headed by the Prime Minister. The Council of Ministers comprises the Prime Minister, the Deputy Prime Minister and ministers of the Government (currently 13 ministers and 33 deputy ministers). The Council of Ministers exercises every state function that is not given to other organs of state power or to local government, and is responsible for defining the principal directions of Albania's general state policy, both domestic and foreign. Pursuant to Article 96 of the Constitution, the Prime Minister is appointed by the President on the proposal of the party or coalition of parties that has the majority of seats in the Assembly. The appointment is subsequently approved by a simple majority of all members of the Assembly. Members of the Council of Ministers are nominated by the Prime Minister, approved by a decree of the President and then finally approved by the Assembly.

In furtherance of women's rights, coordinators for gender issues have been appointed in all line ministries. Matters of gender equality are overseen by the National Council on Gender Equality.

Judiciary

Albania has a civil law system. The court structure consists of a Constitutional Court, a Supreme Court and multiple appeal and district courts.

The Constitutional Court is comprised of nine members, each appointed by the Assembly for a single nine-year term. The Constitutional Court interprets the Constitution, determines the constitutionality of laws and resolves disagreements between local and federal authorities.

The Supreme Court is the highest court of appeal and consists of 17 members who are appointed by the President with the consent of the Assembly for a single nine-year term. Elections to the Supreme Court are conducted on a staggered basis.

The President chairs the High Council of Justice, which is responsible for appointing and dismissing other judges. The High Council of Justice is comprised of 15 members: the President, the Chairman of the Supreme Court, the Minister of Justice, three members elected by the Assembly and nine judges of various levels elected by the National Judicial Conference.

The remaining courts are divided into three jurisdictions: criminal, civil and military. There are no jury trials under the Albanian justice system, and judgments and sentences are rendered by judges.

Judicial Reform

The judiciary of Albania is currently undergoing a comprehensive and thorough transitional re-evaluation process to increase its transparency, accountability and independence. In July 2016, after 18 months of technical and political work and intensive negotiations, the Assembly approved amendments to the Constitution aimed at overhauling the governing bodies of Albania's judiciary and improving the efficiency and independence of the judicial system. The amendments covered two key areas: (i) the introduction of a re-evaluation process (or vetting process) of all judges and prosecutors; and (ii) the establishment of a special court and prosecution office to judge, investigate and prosecute high officials in cases of corruption and criminal charges relating to organised crime.

The judicial reform process has resulted in the modification of existing institutions, as well as the creation of new institutions. Following the adoption of the constitutional amendments in 2016, the following new judicial institutions were created: (i) High Judicial Council (aimed at monitoring the independence, accountability and good functioning of the judiciary, with six members elected by members of the judiciary and five members appointed by the Assembly); (ii) High Prosecutorial Council (aimed at monitoring the independence, accountability and good functioning of prosecutors in Albania, with six members elected by members of the judiciary and five members appointed by the Assembly); (iii) High Justice Inspectorate (responsible for the verification of complaints, the investigation of violations and the initiation of disciplinary proceedings against judges and prosecutors; the High Justice Inspector is nominated by a three-fifths majority of the Assembly); (iv) Justice Appointments Council (established as an independent organ tasked with verifying the legal and moral qualifications of judicial candidates, consisting of nine members drawn by lot from judges and prosecutors); (v) Special Prosecutor's Office Against Corruption and Organised Crime (which represents the State in cases against individuals charged with corruption, organised crime and other criminal cases); (vi) Court Against Corruption and Organised Crime; (vii) National Bureau of Investigation (which has sole jurisdiction to investigate crimes of corruption and organised crime, as well as crimes committed by a list of officials set out in the Constitution (including, the President, the Speaker of the Assembly, the Prime Minister, members of the Council of Ministers and certain other officials) and other Special Investigation Units; (viii) judicial councils; and (ix) re-evaluation institutions.

Other initiatives are being introduced in parallel to improve the courts' efficiency (including reforming court fees and introducing electronic operational case management), reduce backlogs, improve the enforcement of contracts and strengthen property rights (including property right protections for non-residents). In November 2016, the Government adopted a cross-sectoral justice strategy for 2015-2020 (the "**Justice Strategy**"), which aims to increase access to justice, enhance public trust in the Albanian justice system and encourage the acceleration of European integration. The Justice Strategy has several high level strategic goals: (i) strengthening the independence, efficiency and accountability of the institutions of justice; (ii) improving the functioning of the judicial system; (iii) improving the protection of fundamental human rights; (iv) strengthening the role of the legal profession; and (v) ensuring the active role of stakeholders and civil society in strengthening Albania's justice system. The estimated budget for implementation of the Justice Strategy is €98 million, of which 35% is expected to be funded by international donors. Work is also ongoing on the establishment of a legal and fiscal cadastre. See "*The Albanian Economy—Economic Programme and Priorities*".

The judicial reform process is being supported by both the EU and the United States. In particular, the constitutional amendments passed in 2016 provide for the reform process to be completed with partners in the framework of the European integration process and Euro-Atlantic cooperation.

Vetting Process

Pursuant to the constitutional amendments adopted in 2016, a commission of first instance (the "**Independent Qualification Commission**") and a specialised qualification chamber to hear appeals (the "**Appeal Chamber**"), each a specialised institution external to the ordinary court system, have been established to carry out the vetting process. The Independent Qualification Commission and the Appeal Chamber are, in turn, monitored by an international monitoring operation (the "**International Monitoring Operation**") composed of judges and prosecutors selected by different EU Member States. The vetting process comprises three main components: (i) an asset assessment, comprising an overall audit of the legitimacy of the judge's or prosecutor's assets; (ii) a background assessment, comprising an evaluation of whether the judge or prosecutor has links to organised crime; and (iii) a proficiency assessment, comprising an evaluation of the judge's or prosecutor's relevant skills.

In October 2017, the Government requested that the International Monitoring Operation and Independent Qualification Commission begin the process of vetting members of the Constitutional Court, the President of the High Court and the General Prosecutor, with the remaining members of the judiciary to be vetted following completion of the commission's initial review. Following the launch of the vetting process in January 2018, seven members of the judiciary resigned, refusing to complete the process, and six members of the judiciary opted to leave official duties at the time of retirement, rather than complete the vetting process. Opting out of the vetting process does not exempt members of the judiciary from separate criminal investigation and trial.

Following the Independent Qualification Commission's initial review, two top-ranking members of the judiciary resigned from service and requested that their vetting procedure be terminated. Hearings in March 2018 and April 2018 resulted in the dismissal of a Constitutional Court judge, and a hearing in April 2018 resulted in the dismissal of a Court of Appeal judge, who was also a candidate to the High Judicial Council. As at 13 September 2018, the Independent Qualification Commission had issued 54 decisions in connection with the vetting process, including: (i) 27 decisions confirming the continued duty for 17 judges and 10 prosecutors; (ii) 21 decisions dismissing 13 judges and eight prosecutors; (iii) five decisions terminating the vetting process for three judges and two prosecutors; and (iv) eight decisions terminating the vetting process for two judges, one prosecutor and five legal advisors of the High Court. Decisions terminating the appointment of judges and prosecutors have been primarily as a result of the identification of unexplained assets and sources of funds.

The vetting process is ongoing and is expected to be applied to all levels of the judiciary. Accordingly, additional judges and prosecutors may be dismissed in the future or may decide to resign from the judiciary rather than complete or participate in the vetting process.

See "*Risk Factors—Risks relating to Albania—Corruption, money laundering and organised crime may hinder the growth of the Albanian economy, delay or foreclose EU accession or otherwise adversely affect Albania*" and "*Risk Factors—Risks relating to Albania—Albania's legal system is not fully developed and presents greater risks and uncertainties than a more developed legal system*".

Current Government

The main political parties in Albania are the SPA, the DPA, the SMI, the Albanian Republican Party, the Justice and Integration Party, the Demo-Christian Party, the Union for Human Rights Party, the New Democracy Party, the Social Democratic Party and the Social Democracy Party.

The most recent elections for the Assembly were held in June 2017, in which the SPA won 74 seats and the mandate to form a government without the need to form a coalition. In total, 18 parties ran in the 2017 parliamentary elections.

The following table sets forth the results of the 2017 elections.

Results of the 2017 Assembly Elections

	Number of Seats	**Percentage of Seats**
Socialist Party (SPA)	74	52.9
Democratic Party (DPA)	43	30.7
Socialist Movement for Integration (SMI)	19	13.6
Party for Justice, Integration and Unity (PDIU)	3	2.1
Social Democratic Party	1	0.7
Total	**140**	**100.00**

The Assembly approved Prime Minister Edi Rama's proposed Council of Ministers on 13 September 2017. The Council of Ministers includes 13 ministers, all of which belong to the SPA.

The Organisation for Security and Cooperation in Europe (the "**OSCE**"), the Parliamentary Assembly of the Council of Europe and the European Parliament formed an International Election Observation Mission (the "**IEOM**") to oversee the 2017 parliamentary elections.

The IEOM issued a Statement of Preliminary Findings and Conclusions on 26 June 2017, which concluded that "Electoral contestants were able to campaign freely and fundamental freedoms were respected… The implementation of the [May 2017 Agreement] created challenges for the election administration and resulted in a selective and inconsistent application of the law". In its statement of preliminary findings and conclusions, which was published on 26 June 2017, the OSCE also highlighted the politicisation of electoral bodies, allegations of vote-buying and pressure on voters.

In its April 2018 staff report, the European Commission noted that the 2017 parliamentary elections were held in an orderly manner, the results were accepted by all parties, and the May 2017 Agreement had resulted in a less divisive election campaign.

The next parliamentary elections are scheduled for June 2021.

Electoral Reform

Following the May 2017 Agreement, on 22 May 2017, amendments were made to the Law on Political Parties, the Law on Audio-visual Media and the Criminal Code, introducing regulations on campaigning, campaign finance and political advertising in broadcast media, as well as new electoral offences and increased sanctions for existing electoral offences.

A parliamentary committee was established in October 2017 to address the IEOM's recommendations following the 2017 parliamentary elections, as well as the OSCE's recommendations from previous elections. The committee is jointly chaired by representatives of the SPA and the DPA and includes representatives of all parties in the Assembly. The work of the committee is ongoing.

Local Government

Local government in Albania is organised in two levels, municipalities and districts. In July 2014, the Assembly passed Law № 115 of 31 July 2014 "On administrative division of local government units in the Republic of Albania" ("**Law 115**"), according to which the number of local government units decreased to 61 from the 373 communes and municipalities previously in place, while the number of regional councils remained at 12. In addition, the law reduced the number of municipal councillors from 6,600 to 1,600 and the number of public clerks from 20,000 to 12,000. Pursuant to reforms introduced by Law 115, local government units enjoy certain rights, including the right of self-governance, the right of property, the right to collect revenues and make expenditures and the right to conduct economic activities. These reforms were implemented following the local elections in June 2015 and have generated savings of approximately ALL 6 billion, which have been applied to local capital investment.

The most recent local government elections took place on 21 June 2015. This election was the first to elect mayors and councils in each of the 61 newly-formed local government units. According to results announced by the CEC, the ruling coalition, led by the SPA, won a majority, controlling 46 out of the 61 local government units. The OSCE monitored the local elections and its preliminary conclusions published on 22 June 2015, noted that "[o]verall, election day was assessed positively, but many cases of group voting and some important procedural irregularities were observed." The next local government elections are scheduled to take place in June 2019.

Since 2015, the Government has continued to focus on reforming local government and encouraging decentralisation, with the aim of increasing local government efficiency and performance, as well as simplifying access to local services. In February 2015, the Assembly approved a national strategy for decentralisation and local governance for 2015-2020, which sets out the Government's vision towards strengthening local democracy and advancing the decentralisation process in line with EU standards. The Consultative Council was established in December 2016 as a mechanism to facilitate institutional co-ordination between central and local governments. In January 2016, Law № 139 of 17 December 2015 "On local self-governance finances" came into effect, regulating the organisation and functioning of local government units. An inter-ministerial working group is preparing a new decentralisation strategy, which aims to increase the number of functions and competencies delegated to local governments, while addressing concerns over weak revenue collection, financial control, human resource management, corruption and transparency.

The 2018 local government budget aims to promote local democracy efforts through the enhancement of the quality of services available to citizens at the local level. The 2018 local government budget targets an ALL 3 billion increase in tax revenues, as compared to 2017, all of which will be used to increase the local public investment portfolio and pay local government unit arrears.

Migration

Due to the on-going conflicts in Syria, European countries have witnessed an influx of refugees since 2015. In recent years, Albania has experienced an increase in migrants and asylum seekers, primarily of Algerian, Syrian or Libyan origin. In 2017, 1,047 migrants were intercepted and pre-screened at the Albanian border, as compared to 915 in 2016. In the two months ended 28 February 2018, 661 migrants were intercepted and pre-screened at the border, as compared to 144 in the corresponding period in 2017. In September 2015, Albania prepared a contingency plan with the European Border and Coast Guard Agency (the "**EBCGA**") for a possible mass influx of migrants and asylum seekers. The agreement, which became effective on 12 February 2018, permits the EBCGA to assist the Albanian authorities to manage Albania's external border and to swiftly deploy teams on Albania territory in case of a sudden shift in migration flows. A new centre for registration and temporary accommodation for irregular migrants was established in June 2017. See "*Risk Factors—Risks relating to Albania—An investment in a developing country, such as Albania, is subject to substantially greater risks than an investment in a more developed country*".

International Relations

Albania is a member of multiple regional and international organisations and initiatives, including NATO, the OSCE, the United Nations ("**UN**"), the Stability Pact for South Eastern Europe, the U.S.-Adriatic Charter on Euro-Atlantic Integration and the World Trade Organization ("**WTO**"). Albania is in the process of applying for full membership of the EU.

European Union

EU integration, leading to eventual membership, is the Government's overriding foreign policy priority. In June 2006, Albania and the EU signed a Stabilisation and Association Agreement (the "**SAA**"), which provided guidance on required political and economic reforms and was the first step towards Albania's EU membership. In accordance with the SAA, Albania has been focusing on implementing essential rule of law reforms and addressing corruption and organised crime.

Albania filed its application for EU membership in April 2009. In October 2013, the European Commission recommended that Albania be granted EU candidate status, subject to completion of certain key reform measures. The European Commission's 2013-2014 Enlargement Strategy Paper identified five key priorities to be addressed prior to the launch of formal accession negotiations: (i) continued implementation of public administration reforms; (ii) further action to reinforce the independence, efficiency and accountability of judicial institutions; (iii) introduction of measures to fight corruption; (iv) introduction of measures to fight organised crime; and (v) reinforcement of human rights and anti-discrimination policies and implementation of property rights (collectively, the "**Five Key EU Integration Priorities**"). In May 2014, the Government adopted a comprehensive roadmap to structure Albania's efforts in meeting these key priorities, and, in July 2014, the Government adopted a National Plan for European Integration for the period 2014 to 2020. On 27 June 2014, Albania was granted EU candidate status.

Albania is working closely with the European Commission in connection with its reform projects and its preparation for the next stage of the EU integration process, which comprises the opening of formal accession negotiations. The opening of negotiations depends upon the implementation of the required reforms and requires the agreement of all EU Member States. Formal membership negotiations will also require the adoption of established EU laws and preparations to be in a position to apply and enforce EU law. In Albania, the National Council of European Integration has been established; demonstrating the all-party approach to EU integration, this Council is chaired by the parliamentary opposition. Members of the parliamentary opposition are also invited to participate in high-level dialogue with all EU institutions.

In 2016, the European Commission commended Albania's progress in respect of the Five Key EU Integration Priorities and noted the judicial reform programme launched in Albania. See "*—Government Structure and Recent Developments—Political System—Judiciary*". Accordingly, the European Commission recommended that accession talks be opened as soon as tangible progress in the areas of judicial reform, combat against corruption and free and democratic elections had been shown.

In February 2018, the European Commission adopted its strategy for "A credible enlargement perspective for and enhanced EU engagement with the Western Balkans". This strategy outlined the remaining challenges to EU integration faced by the six Balkan states hoping to join the EU, *i.e.* Albania, Bosnia and Herzegovina, Macedonia, Kosovo, Montenegro and Serbia (the "**West Balkans Six**"). The strategy sets out flagship initiatives in six key areas (rule of law, security and migration, socio-economic development, transport and energy connectivity, digital agenda and reconciliation and good neighbourly relations), as well as the European Commission's vision for the EU and West Balkans Six joint future and how to achieve it.

The leaders of the West Balkans Six attended a EU heads of state summit in Sofia in May 2018. At the summit, the EU leaders agreed on a declaration (the "**Sofia Declaration**"), which welcomed the shared commitment of the West Balkans Six to European values and principles and reaffirmed the EU's unequivocal support for the European perspective of the Western Balkans. The "Sofia priority agenda" was also adopted as an annex to the Sofia Declaration, outlining new measures for enhanced co-operation between the EU and the West Balkans Six in the areas of strengthening support to the rule of law and good governance, reinforcing engagement on security and migration, supporting socio-economic development with a specific focus on youth, increasing connectivity, launching a digital agenda for the West Balkans and supporting reconciliation and good neighbourly relations in the Western Balkans.

In April 2018, the European Commission published its Albania 2018 Report, which concluded that significant improvements had been made in respect of each of the Five Key EU Integration Priorities. The report noted, *inter alia*, that: (i) relevant legal and strategic frameworks were now in place and public administration reform had continued consistently; (ii) a thorough and comprehensive justice reform is being implemented; (iii) there has been an improvement in the fight against corruption and organised crime; and (iv) the legal framework for the protection of human rights is broadly in line with European standards and Albania has ratified most international human rights conventions. The report concluded, however, that further reform efforts were required prior to the opening of formal accession negotiations.

In June 2018, the General Affairs Council of the EU agreed to work with Albania on a path towards opening accession negotiations in June 2019.

In July 2018, a further summit was held in London as part of the Berlin Process between EU leaders and leaders of the West Balkans Six to discuss the further strengthening of co-operation between the EU and the West Balkan region, with a particular focus on economy, security and reconciliation co-operation. The Berlin Process was launched in 2014 as a diplomatic initiative bringing together the West Balkans Six and EU partners and representatives of EU institutions to work together to support security, stability and prosperity in the region.

EU accession is not expected in the short-term. See *"Risk Factors—Risks relating to Albania—Albania may not become a member of the EU in the near to medium term or at all"*.

Albania has benefited from EU support through a number of programmes, targeted both nationally and regionally, primarily in the areas of governance and institution building, rule of law, education, agriculture and rural development. For the period 2015 to 2018, the EU has committed a total of €125.6 million in budget support, €11.4 million of technical assistance and €1.0 million in support of monitoring, evaluation and audit efforts in five key reform areas, public finance management, employment and skills, public administration reform, transport (in particular, road transportation) and the fight against corruption. The total amount received by the treasury to date is €46.9 million, of which €23.8 million is to support public finance management reforms, €12.3 million is to support employment and skills reforms and €10.9 million is to support public administration reforms. Such amounts do not include requested disbursements for 2017 (which were requested in April 2018) and amounts remaining to be requested under the facility in respect of 2018.

Albania is party to the EC-Albania Readmission Agreement, which entered into force in 2006 and establishes reciprocal procedures for the readmission of persons residing without authorisation in Albania or an EU member state, and the Visa Facilitation Agreement, which entered into force in 2008. Since 2010, Albanian citizens benefit from visa-free travel to the Schengen Area.

Albania has also aligned its policy with the EU's common foreign and security policy when it has been invited to do so by the EU.

Within the EU, Albania has particularly strong relations with Greece (as a result of the proximity of Albania to Greece, the presence of a significant number of ethnic Greeks in Albania and ethnic Albanians in Greece and the significant presence of Greek banks in the Albanian financial sector). A memorandum of understanding on energy was signed in April 2017 between Albania and Greece, aimed at promoting regional energy connectivity and the diversification of natural gas sources, lines and suppliers.

Italy is Albania's largest trading partner (See "*Balance of Payments and Foreign Trade*"). In October 2016, Italy and Albania signed a memorandum of understanding on cooperation in the agriculture sector, and, in March 2017, a cooperation agreement was signed between the Albanian and Italian transport ministries, removing the fixed fee and road tax for Albanian carriers. In November 2017, Italy and Albania signed a protocol on the fight against terrorism and human trafficking. The two countries have also renewed their framework agreement on education. In addition, the construction of the TAP is another key project that will continue Albania's close cooperation with Italy. See "*The Albanian Economy—Principal sectors of the Economy—Energy—Energy Sector Reform*".

United States

The United States established diplomatic relations with Albania in 1922, although diplomatic relations were ended in 1939 due to Albania's occupation by Italy and Germany and then during Albania's communist regime. Diplomatic relations between the United States and Albania were re-established in 1991.

Albania and the United States have signed and ratified a number of agreements, including a treaty on the prevention of proliferation of weapons of mass destruction and the promotion of defence and military relations; the U.S.-Adriatic Charter on Euro-Atlantic Integration; and an article 98 agreement regarding the non-surrender of persons to the International Criminal Court.

In April 2015, Albania and the United States signed a Joint Declaration on Strategic Partnership, which focuses on partnership between the two countries on global issues, regional issues, political dialogue, security, strengthening the rule of law, economic development, energy security and educational and cultural changes.

U.S. government assistance has aimed to help Albania to strengthen its democratic institutions and the rule of law; promote sustainable, broad-based economic growth; and integrate the country into European and Euro-Atlantic structures. In 2017, financial assistance from the United States to Albania totalled U.S.$13.7 million, as compared to U.S.$15.1 million in 2016 and U.S.$14.1 million in 2015.

Russia

Relations between Albania and the Russian Federation ("**Russia**") have deteriorated since 2008, primarily due to Russia's policy regarding Kosovo. Since 2014, bilateral relations with Russia have deteriorated further in response to Russia's annexation of Crimea and the ongoing conflict in Ukraine. In this respect, Albania has officially aligned its foreign policy and economic sanctions regime with that of the EU.

NATO

Albania joined NATO in April 2009. In July 2010, as the first step in increasing its role in peacekeeping and security operations with NATO, Albania increased its commitment to operations in Afghanistan from approximately 250 soldiers to approximately 290 soldiers. Albania's troop contribution to the Resolute Support Mission (RSM), which was launched on 1 January 2015, following the termination of the previous NATO-led operation in Afghanistan, increased from 43 troops in 2015 to 134 troops in 2018.

In recent years, Albania has been working to increase its participation in NATO as part of its closer integration with the alliance. In addition to its participation in NATO operations in Afghanistan, Albanian forces have worked alongside NATO nations in peacekeeping operations in Bosnia and Herzegovina. Albania also contributes military personnel to Kosovo. In November 2016, the Albanian navy, in its first NATO deployment, joined NATO's Aegean mission and deployed a patrol vessel, manned with a rotating crew of 23 members, to monitor the waters between Turkey and Greece and support international efforts aimed at combatting human trafficking. Albania has deployed 23 troops in Latvia since 2017, as part of the Canadian-led multinational group (forming part of NATO's Enhanced Forward Presence in Estonia, Latvia, Lithuania and Poland). In August 2018, Prime Minister Rama announced that NATO, in partnership with the Government, is expected to invest over €50 million in the construction of an air base in Kuçovë, NATO's first air base in the Western Balkans, which is also expected to serve as the national base for Albania's air force.

Albania held the rotating chairmanship of the U.S.-Adriatic Charter on Euro-Atlantic Integration (an association of Albania, Bosnia and Herzegovina, Croatia and Macedonia the United States) in 2014. Albania is committed to increasing regional security cooperation in order to enable further participation in this initiative.

Albania's foreign policy with respect to the conflict in Ukraine is in line with NATO's policies, and Albania contributes funds to the NATO trust fund for assisting Ukraine.

Albania also contributes to NATO's anti-terrorism operations through its participation in NATO's Partnership Action Plan on Terrorism. This includes sharing intelligence and analysis with NATO, enhancing national counter-terrorist capabilities and improving border security.

World Trade Organization

Albania has been a member of the WTO since September 2000. As a result of its membership of the WTO, Albania is required to continuously monitor the fulfilment of commitments arising from membership, as well as to develop and implement domestic legislation in accordance with the agreements and rules of the WTO. The Ministry of Finance and Economy, in co-ordination with the Ministry of Foreign Affairs, is responsible for monitoring Albania's compliance with WTO requirements, in close collaboration with the Permanent Mission of the Republic of Albania in Geneva.

United Nations

Albania has been a member of the UN since 14 December 1955 and regularly works with various UN agencies, including the UNHCR, the UN Economic Commission for Europe ("**UNECE**"), the UN Industrial Development Organisation ("**UNIDO**"), the UN Environment Programme ("**UNEP**") and the UNDP. In September 2015, Albania endorsed the UN's "2030 Agenda for Sustainable Development" ("**Agenda 2030**"), which was adopted by world leaders in September 2015 and came into force on 1 January 2016, and has included sustainability targets from Agenda 2030 as part of its EU integration reform agenda. These sustainability targets included working towards the elimination of poverty, hunger and gender inequality.

In January 2018, Albania (primarily through the Ministry of Tourism) began working with the UNECE in connection with its "Evidence-based environmental governance and sustainable environmental policies in support of the 2030 Agenda in South East Europe", with the aim of developing a national action plan to implement recommendations to improve Albania's environmental policies, including by addressing past industrial pollution.

Albania is also working with UNIDO on initiatives to increase the use of biomass energy by small- and medium-sized enterprises ("**SMEs**").

In 2016, Albania signed a memorandum of understanding with UNECE aimed at developing cooperation in relation to sustainable housing, including through the establishment of the Geneva United Nations Charter Centre of Excellence in Tirana.

In 2015, Albania was elected as the Coordinator of "Group D" of the UN Conference on Trade and Development ("**UNCTAD**"), which includes 24 countries from South-East Europe. On 21 November 2017, Albania, together with other countries in the region, participated in UNCTAD's Investment Policy Review.

Regional Relationships

Albania maintains positive relations with its neighbours. Since 18 February 2008, Albania has recognised the independence of, and strengthened its relationship with, Kosovo, which has, in the past, led to tensions with neighbouring countries, although these tensions have declined in recent years. Furthermore, Albania maintains generally positive relations with Montenegro, which gained its independence in 2006 after the dissolution of the former Yugoslav Republic. Albania has recently revitalised its relationship with Serbia following the visit of Albania's Prime Minister Edi Rama to Belgrade on 11 November 2014, the first visit since 1946. Tensions occasionally arise with Greece over the treatment of the Greek minority in Albania or the Albanian community in Greece, but relations with Greece are positive overall. Albania also maintains good relations with Bosnia and Herzegovina. Albania maintains diplomatic relations with Macedonia and supports its sovereignty, integrity and stability, although Albania has condemned the events in Kumanovo of 2015 and maintains that both the rule of law and the rights of ethnic Albanians in Macedonia should be respected in line with the Ohrid Framework Agreement entered into on 13 August 2001. On 19 December 2006, all of Albania's bilateral trade agreements with countries in the western Balkans region were transformed into a multilateral agreement, the Central European Free Trade Agreement ("**CEFTA**"), which includes Albania, Macedonia, Montenegro, Kosovo, Moldova, Serbia and Bosnia and Herzegovina.

Albanian, Macedonian and Italian law enforcement agencies are cooperating with increasing efficiency to crack down on the trafficking of arms, drugs, contraband and human beings across their borders. See "*—European Union*". Albania has also arrested and prosecuted several ethnic Albanian extremists on charges of inciting inter-ethnic hatred in Macedonia and Kosovo.

In recent years, regional cooperation has increased. Albania participates in a number of regional political and economic forums and initiatives, including transition from the Stability Pact for South-Eastern Europe to a more regional framework with the South-East European Cooperation Process and the Regional Cooperation Council. In addition, Albania has joined the West Balkans Six Initiative, which provides political support for regional cooperation focusing on economic governance and connectivity. The Western Balkans Six established the Western Balkans Fund ("**WBF**") in November 2015 with the objective of enhancing cooperation among its members and strengthening relations and regional cohesion, to advance integration into the EU. The WBF finances small- and medium-term projects with the objective of increasing regional and cross-border cooperation and strengthening regional cohesion in the areas of: (i) education and scientific exchanges; (ii) cultural cooperation; (iii) cross-border and youth cooperation; and (iv) sustainable development. On 4 July 2016, at a Paris summit, the West Balkans Six, established the Regional Youth Cooperation Office ("**RYCO**"), an independent institution aimed at promoting the spirit of reconciliation and cooperation between youth in the region through youth exchange programmes. As the host country of the RYCO and WBF, Albania is committed to the operation of these regional bodies. The RYCO and WBF are currently fully operational and have started to review potential projects. The fifth Western Balkans Six Summit was held in London on 10 July 2018. See also "*—European Union*".

In August 2014, Albania participated in the High-Level Conference EU-Western Balkans, which reaffirmed the importance of the EU integration process as an impetus for reform in the region. It also aimed to increase regional cooperation and address political issues in the region through the implementation of regional projects aligned with those implemented in the EU. In this respect, a number of Government ministries, including the Ministry of Economic Development, Trade and Entrepreneurship and the Ministry of Transportation, have worked with their counterparts in other countries in the region in connection with a list of regional projects, which will require the support of both EU and international financial institutions.

In May 2017, Kosovo, Montenegro and Albania signed a protocol for the establishment of a joint centre for police cooperation. The aim of the joint centre project is to improve cross-border cooperation in the fight against crime through more intensive exchange of operative information and more efficient coordination of joint activities along state borders.

THE ALBANIAN ECONOMY

Background

The Albanian economy has undergone a significant transformation since the fall of the Communist government in 1992. In common with other post-Communist countries in Eastern Europe, Albania's transition to a market-based economy in the 1990s was accompanied by economic dislocation due to the shock of the transition and the effects and costs of implementing economic reforms. This transition remains ongoing, with a broad range of continuing reform initiatives being implemented by the Government, in particular programmes aimed at structural reforms and fiscal consolidation.

The democratically-elected government that assumed office in April 1992 launched an economic reform programme that was intended to stop economic deterioration and begin Albania's transition to a market economy. Key elements included price and foreign exchange liberalisation, fiscal consolidation and monetary restraint. These were complemented by a comprehensive package of structural reforms, including privatisation, enterprise and financial sector reforms, as well as the creation of a legal framework for a market economy and private sector activity. Led by the agricultural sector, real GDP grew, and Albania's currency, the Lek, stabilised. Progress stalled in 1996, due to, *inter alia*, the collapse of large financial pyramid schemes and the instability that followed.

In recent years, the Albanian economy has improved, infrastructure has developed and substantial reforms, in areas such as tax collection, property laws and business regulations, are continuing. Between 1998 and 2008, Albania had real GDP growth of at least 5.0% each year, except in 2002. Between 2009 and 2014, Albania had an average annual GDP growth rate of 2.5%. Albania's real GDP has grown year-on-year since 2013, growing by 1% in 2013, 1.8% in 2014, 2.2% in 2015, 3.4% in 2016 and 3.8% in 2017. According to IMF projections, Albania's real GDP is forecasted to grow by 3.7% in 2018 and 3.8% in 2019. See "*—Gross Domestic Product*".

In February 2014, the IMF approved a 36-month, SDR 295.42 million (approximately €330.9 million) arrangement under the EFF for Albania in support of the Government's reform programme. The conditions for disbursement under the EFF arrangement included the implementation of Government objectives regarding economic growth, fiscal performance, inflation expectations, pension reforms, arrears clearance and prevention reforms, NPL reduction and improved financial sector supervision. In February 2017, Albania drew down the last instalment of the EFF arrangement, successfully concluding the three-year programme. At the end of the IMF programme, the head of the IMF's Albania team commented that "the program[me] has successfully put Albania on a recovery path with sound public finances…Thanks to the commitment of the Albanian authorities, [the IMF] could support reforms that are critical to growth. The program[me] strengthened the institutional framework, reduced vulnerabilities of the economy, and helped maintain economic stability despite difficult external conditions".

As a result of recent economic and structural reforms, including those supported by the IMF EFF programme, economic growth has increased, domestic and external demand has remained strong and unemployment has decreased. The Government's economic policy seeks to achieve sustainable growth, generate solid employment, improve the standard of living of Albanians and create an economy capable of integrating in EU value chains.

Albania is one of the poorest countries in Europe. According to the INSTAT, annual *per capita* GDP was estimated to be ALL 512,934 (€3,734) in 2016 and ALL 539,382 (€4,021) in 2017, while gross national disposable income ("**GNDI**") *per capita* was estimated to be approximately ALL 560,432 (€4,080) in 2016 and ALL 583,530 (€4,350) in 2017. GNDI *per capita* adjusted for purchasing power parity was or €11,209 in 2016 and €11,150 in 2017. According to the most recent preliminary data compiled by the World Bank's Poverty Assessment Programme, 14.3% of the Albanian population lived below the poverty line (defined as the minimum level of income deemed adequate in a particularly country) in 2012, reflecting a deterioration from 12.4% in 2008. According to estimates by the World Bank published in its Macro Poverty Outlook (Spring 2018), Albania's poverty rate (measured at U.S.$5.50 per day at 2011 purchasing power parity) was approximately 32.8% in 2017, as compared to 33.9% in 2016.

The official unemployment rate decreased from 14.5% as at 31 December 2016 to 13.6% as at 31 December 2017 and 13.0% as at 31 March 2018, according to statistics prepared by INSTAT. Employment in the private non-agricultural sector improved in 2017, while employment in the agricultural sector recorded a decline.

Albania also has a large informal economy, which was estimated by INSTAT and academic reports to represent about 28% of GDP in 2016. See "*—Gross Domestic Product*", "*—Informal Economy*" and "*Risk Factors—Risks relating to Albania—A significant portion of the Albanian economy is not recorded*".

The Bank of Albania targets annual inflation at a rate of 3.0%. While inflation has remained relatively stable at 2.0% in 2017 and 2.2% for the eight months ended 31 August 2018, it remains below the target level, reflecting the strong exchange rate and low inflationary pressures. In response to these developments, the Bank of Albania has generally maintained an expansionary monetary policy. See "*Monetary and Financial System—Monetary Policy*".

Economic Programme and Priorities

Following the SPA's victory in the 2017 parliamentary elections, Prime Minister Rama announced that the key pillars of the new Government's programme would be: (i) advancing judicial reform (see "*The Republic of Albania—Government Structure and Recent Developments—Political System—Judiciary*"); and (ii) increasing investment and improving public administration efficiency (see "*Public Finances—Fiscal Policies and Budget Performance*").

In October 2014, the European Commission invited the West Balkans Six, including Albania, to prepare annual economic reform programmes ("**Economic Reform Programmes**") in connection with their proposed accession to the EU. These economic reform programmes are required to include medium-term macro-economic and fiscal policy frameworks, proposed macro-structural reform measures to directly support the policy frameworks and other sectoral structural reform measures aimed at improving physical and human capital, industrial structures, the business environment and trade integration in order to boost competitiveness and long-term growth.

On 25 January 2018, the Government adopted its fourth annual Economic Reform Programme covering the period 2018-2020 (the "**2018-2020 ERP**"), which outlines the Government's key macro-economic and fiscal policies, as well as its medium-term priority structural reforms. The 2018-2020 ERP was submitted to the European Commission and the European Central Bank on 31 January 2018 for assessment in connection with Albania's EU integration goals.

The 2018-2020 ERP is based on the following key principles:

- ***Continuing fiscal consolidation to lower debt-related vulnerabilities linked to macro-economic instability and lower economic growth:*** Pursuant to this principle, the Government is committed to lowering the public debt to GDP ratio to less than 60% by the end of 2021, from 65.2% as at 30 June 2018 and 70.0% as at 31 December 2017, introducing a number of fiscal consolidation measures and implementing a wide-ranging energy sector reform programme. See "*Public Debt—Debt Management Policy*", "*Public Finances—Fiscal Policies and Budget Performance*" and "*—Energy—Energy Sector Reform*".

- ***Reforming the energy and transportation sectors:*** The Government intends to continue reform in these areas for Albania to be better connected to other markets, to encourage sustainable economic growth, increase Albania's competitive position and to reduce transport and connectivity costs for Albanian products. See "*—Energy—Energy Sector Reform*" and "*—Transport and Infrastructure—Railways*".

- ***Structural reform:*** The Government has announced its intention to adopt a balanced approach to structural reform, which focuses on the need to increase the skills in the market and promote smooth integration of the Albania economy into regional and European markets, in line with EU analyses and recommendations, as well as those set out in other international reports, including the Organisation for Economic Co-Operation and Development ("**OECD**") Competitiveness Outlook, the World Bank's Doing Business Report and the World Economic Forum's Global Competitiveness Report. With respect to business reforms, the Government has reduced the number of licences required to be issued, implemented "one-stop shops", "single windows", e-services and other services to reduce and simplify a large number of administrative procedures. To date, such reforms have eliminated the requirement for certain administrative documents, reduced administrative delays and permitted more than 500,000 administrative procedures to be filed online. Further deregulation reforms are being drafted by a working group chaired by the Deputy Prime Minister.

- ***Implementing measures to improve the skills in the labour market and strengthen social inclusion:*** Pursuant to this principle, the Government intends to: reform the quality and coverage of vocational and educational training, while ensuring such training is linked to the labour market and available jobs; modernise public employment services; increase employment of women, youth and vulnerable people; strengthen social protection and social inclusion measures; and prepare and implement competence-based curricula in schools. See "*—2018-2020 ERP Reform Priorities—Improve the quality and coverage of vocational education and training while ensuring linkages with the labour market*".

- ***Continuing to develop the private sector*** – In the private sector, the Government's focus remains on reducing the regulatory burden imposed on businesses and improving access to finance and facilitating trade at the national level.

2018-2020 ERP Reform Priorities

In furtherance of such principles, and building on the on-going implementation of previous years' reform priorities, the Government plans to focus on the following reform priorities in the 2018-2020 ERP for increasing domestic production, stimulating new investments, encouraging sustainable growth and increased competition in the medium-term:

- ***Establishment of a fiscal cadastre –*** The Government proposes to establish a fiscal cadastre to consolidate all existing data on land, buildings and occupants and to calculate the annual tax obligation for each property. The Government expects that this will strengthen the agricultural sector in order to create employment opportunities in this sector. In 2017, in line with this priority, the Government prepared a new property tax law, which was approved by the Assembly and entered into force on a national level on 1 April 2018. The new property tax law imposes tax based on the market value of a property. A property register, detailing property tax due for properties, is expected to be operational with effect from January 2019 and to be partially digitalised. The Government expects the fiscal cadastre to lead to an increase in tax revenues of approximately 0.3%-0.5% of GDP. See "*—Principal Sectors of the Economy—Agriculture—Agricultural Sector Reform*".

- ***Further liberalisation of the energy market –*** The Government has continued to introduce structural reforms in the energy sector, which are aimed at decentralising the energy power system by enabling the participation of private operators in the electricity market. During the 2018-2020 period, planned reforms and projects include establishing the Albania Power Exchange, restructuring the state-owned electricity distributor, OHSEE, to separate energy supply and distribution services, and completing construction of the 400 kV interconnection line connecting Albania with Macedonia. See "*—Principal Sectors of the Economy—Energy—Energy Sector Reform*".

- ***Diversification of energy sources –*** The Government's strategy to diversify energy sources consists of creating a legal and institutional framework for the sector and undertaking a number of regulatory initiatives and investment projects in the gas infrastructure and market. These regulatory initiatives and investment projects include: (i) the development of a gas pipeline connecting the Vlora thermo power plant to the TAP pipeline at a compression station located in the Fieri region; (ii) the adoption of a short-term comprehensive master plan for natural gas (the "**Gas Master Plan for Albania**"), together with a related Project Identification Plan; (iii) the development of the Albanian and Montenegrin side of the Ionian Adriatic Pipeline (the "**IAP**"); and (iv) the completion of pre-feasibility work on the ALKOGAP project (Albania-Kosovo gas interconnection), which is expected by the end of 2018. See "*—Principal Sectors of the Economy—Energy—Energy Sector Reform*".

- ***Completion of the feasibility study for construction and upgrade of the Adriatic-Ionian Corridor –*** The Government expects that the Adriatic-Ionian Highway/Expressway will provide a better road connection with neighbouring countries to establish a competitive, reliable and safe transport system. See "*—Principal Sectors of the Economy—Transport and Infrastructure—Feasibility study for construction and upgrade of the Adriatic-Ionian Corridor*".

- ***Rehabilitation and construction of the Tirana-TIA-Durrës railway segment –*** On 21 March 2016, the National Investment Committee approved a project for the rehabilitation of the existing railway line between the Tirana Public Transport Terminal and Durres and the construction of a new railway line to Tirana International Airport ("**TIA**") as a key priority for the Government (the "**Tirana-TIA-Durrës railway**"). See "*—Principal Sectors of the Economy—Transport and Infrastructure—Railways*".

- ***Consolidation and defragmentation of agricultural land –*** During 2018, the Ministry of Agriculture and Rural Development, in cooperation with the Ministry of Justice has announced its intention to continue working towards establishing a legal framework for land consolidation. See "*—Principal Sectors of the Economy—Agriculture*".

- ***Introduction of strategic policies for the non-food industry*** – The Government plans to encourage and promote the development of a circular economy for certain sectors of industry by increasing the level of cooperation between the Government and other political bodies and public or private scientific research institutions and providing funding and assistance with technical-economic studies. See "*—Principal Sectors of the Economy—Industry*".

- ***Reform on the water and waste water sector –*** Reform in this sector is aimed at improving the wellbeing of the citizens by providing water supply services and waste water disposal and treatment, in accordance with international standards. Water supply coverage benefits approximately 80% of the Albanian population.

- ***Reduce regulatory burden to business*** – The Government intends to reduce licencing requirements and simplify procedures for obtaining licenses, permits and authorisations issued by central institutions.

- ***Improve the institutional capacity of Albania's research and innovation system -*** A new strategy on scientific research and innovation for 2017-2020 was approved in December 2017. The strategy aims to strengthen the institutional capacities of two key institutions, the National Agency for Scientific Research and Innovation and the National Agency for Funding in Higher Education and increase funds for scientific research and development in Albania, as well as to enhance the links between academia, business and the Government.

- ***Adoption of the legal and regulatory framework for the development of broadband infrastructure -.*** Development of broadband infrastructure is a key aim for the Government in order to ensure economic growth and competitiveness. In 2016, the Assembly approved a new law on the development of electronic communication networks. The Government intends to review the current National Broadband Plan and conduct a feasibility study and cost-benefit analysis for regional broadband infrastructure development.

- ***Facilitate trade and reach greater synergy in the implementation of national trade facilitation measures–*** The Government intends to further integrate Albania's economy with the regional market and increase exports by addressing existing impediments to trade. Reform in this area is expected to focus on the exchange of electronic data. The Government has announced its intention to provide continued support to CEFTA (the Central European Free Trade Agreement) and to implement additional protocol 5 to CEFTA, which aims to simplify requirements in relation to the exchange of data among CEFTA parties (see "*Balance of Payments and Foreign Trade—Foreign Trade*"). In February 2018, the Albanian Government adopted a draft law on the adoption of this additional protocol.

- ***Drafting and implementation of competency-based curricula and training of teachers*** - The Government intends to reform the education sector by establishing a new competency-based curricula, developed in line with EU standards, and to encourage teacher training initiatives. In 2015, Law № 80/2015 dated 22 July 2015 was passed, which sets out the main legal framework for the regulation of higher education. In the context of educational reform measures, several universities have been closed in recent years as a result of the poor-quality and inadequate education offered by such institutions.

- ***Improve the quality and coverage of vocational education and training while ensuring linkages with the labour market*** – In 2017, funding for vocational education schools increased by 35%. The Government intends to continue to promote and reform such education by developing a legal framework for vocational education and training, restructuring public providers of vocational education and training, improving school equipment, entering into partnerships with businesses and social partners and increasing access to vocational education and training to citizens from rural areas or marginalised groups. In 2017, there were more than 19,000 vocational trainees, as compared to 13,200 in 2017. The Government also intends to allocate funds for young people in entrepreneurship and training support for young entrepreneurs.

- ***Modernise public employment services, increase employment of women, youth and vulnerable people –*** the Government aims to modernise and improve the efficiency of public employment services through the establishment of a National Agency on Employment and Skills, which will be responsible for service and active labour market programmes, as well as the management of vocational education and training providers. In addition, the Government intends to introduce new and more efficient employment promotion programmes that increase female and youth employment and to reform the legal and institutional framework of the labour market, including through the introduction of a draft law on employment promotion.

- ***Strengthening social protection and social inclusion measures –*** the Government intends to introduce a number of measures aimed at strengthening social protection and social inclusion, in particular by establishing equal opportunities for women and girls, during the period 2018-2020 including: (i) implementing legislation focused on social assistance; (ii) increasing the availability of Albania's economic aid programme to 38.0% of the poorest 10% of the population in 2018, as compared to 21.6% in 2017; (iii) improving reporting and assessment to target poverty reduction, social inclusion and equal opportunities for vulnerable groups through monitoring of action plans; (iv) adopting eligibility assessments for disability assessment; and (v) increasing the financial sustainability of the pension and social insurance scheme. See "*—Pensions and Social Insurance*".

On 25 May 2018, the joint conclusion of the Economic and Financial Dialogue between the EU and the Western Balkans and Turkey in respect of the 2018-2020 ERP were published, recommending Albania continue to focus on pursuing fiscal consolidation, conducting monetary policy in line with reaching the inflation target and implementing the remaining measures to continue the reduction of NPLs.

Gross Domestic Product

The following table sets forth details of Albania's GDP for the years indicated.

Gross Domestic Product[(1)]

	For the year ended 31 December				
	2013	**2014**	**2015**	**2016**	**2017**[(2)]
GDP at current prices (nominal GDP)					
ALL billions	*1,350.1*	*1,395.3*	*1,434.3*	*1,475.3*	*1,552.9*
€ billions[(3)]	*9.6*	*10.0*	*10.3*	*10.7*	*11.6*
Real GDP Growth ***(%)***	*1.0*	*1.8*	*2.2*	*3.4*	*3.8*
GDP per capita					
ALL thousands	*466.3*	*483.0*	*497.9*	*512.934*	*539.382*
€	*3,324.5*	*3,450.3*	*3,563.0*	*3,734.1*	*4,020.7*

Source: INSTAT

Notes:

(1) Certain figures in this table have been revised and may differ from previously published data.
(2) Estimated data.
(3) Converted into Euros using the average annual Lek/Euro exchange rate for the relevant year. See "*Exchange Rates*".

Albania's real GDP grew by 1.0% in 2013, 1.8% in 2014, 2.2% in 2015, 3.4% in 2016 and 3.8% in 2017 (as compared to 2017 GDP growth of 2.4% in the EU according to figures published by Eurostat). According to IMF projections, Albania's real GDP is forecasted to grow by 3.7% in 2018 and 3.8% in 2019. Albania has a large informal economy, which was estimated by INSTAT and academic reports to represent approximately 28% of GDP in 2016. The forecasted GDP growth in 2018 and 2019 is expected to be primarily driven by increased domestic demand, as a result of forecasted increases in private consumption and investments. The forecasted increase in private consumption is expected to be driven primarily by growth in consumer confidence, as well as improvements in the labour market, while the forecasted growth in investments is expected to be driven by more intensive use of existing production capacities, accelerated economic activity and increased access to lending.

Between 2013 and 2016, Albania's GDP grew in real terms by an average rate of 2.1% per year, primarily driven by growth in the services and industry sectors. Real GDP growth in 2017 accelerated to 3.8%, primarily as a result of an increase in the contribution of the construction and industry sectors, and, to a lesser extent, the agriculture sector.

According to preliminary data published by INSTAT, in the three months ended 31 March 2018, real GDP increased by 4.5%, as compared to the corresponding period in 2017. This increase was primarily due to improved performance in the industry, electricity and water; trade, accommodation and food services; and agriculture, forestry and fishing sectors. GDP per capita in 2017 was €4,020.7, an increase of €286.6, as compared to 2016. In 2017, real GDP growth was primarily generated by domestic demand. Total final consumption, increased by 2.7% in real terms, as compared to 2016, while gross fixed capital formation increased by 6.5%.

Albania's GDP in 2017 primarily consisted of services (which accounted for 47.5% of GDP, of which trade, hotels and restaurants represented 13.2% of GDP, transport represented 3.2% of GDP, post and communication represented 3.0% of GDP and other services represented 28.2% of GDP), agriculture (19.0%), construction (9.4%) and industry (11.5%), according to statistics prepared by INSTAT. The remaining 12.6% of GDP relates to net taxes on products (see "—*Principal Sectors of the Economy*"). Approximately 39.7% of all workers in Albania were employed in the agricultural sector in 2017, although the construction and service industries have expanded in recent years. The tourism sector has benefited from increased visits by tourists from the Balkan region and elsewhere. See "*—Principal Sectors of the Economy—Services—Tourism*".

GDP per capita, adjusted for purchasing power parity, was €9,676 in 2013, €10,041 in 2014, €10,639 in 2015, €10,259 in 2016 and €10,313 in 2017, according to data published by the Ministry of Finance and Economy.

The following table sets forth details of the expenditure composition of Albania's GDP in both current prices and percentage terms for the years indicated.

Expenditure Composition of GDP[(1)]

	For the year ended 31 December									
	2013		2014		2015		2016[(2)]		2017[(3)]	
	(ALL millions)	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*
Final Consumption	**1,229,289**	**91.1**	**1,287,018**	**92.2**	**1,316,771**	**91.8**	**1,365,270**	**92.5**	**1,432,819**	**92.3**
Household consumption expenditure	1,073,609	79.5	1,119,647	80.2	1,146,558	79.9	1,186,805	80.4	1,241,640	80.0
General Government consumption expenditure	148,850	11.0	159,788	11.5	159,361	11.1	165,938	11.2	178,100	11.5
NPI serving households[(4)]	6,830	0.5	7,583	0.5	10,853	0.8	12,527	0.8	13,080	0.8
Gross fixed capital formation	**352,088**	**26.1**	**337,087**	**24.2**	**350,164**	**24.4**	**361,989**	**24.5**	**386,516**	**24.9**
Public	74,820	5.5	72,212	5.2	75,800	5.3	74,335	5.0	84,303	5.4
Private	277,268	20.5	264,875	19.0	274,364	19.1	287,654	19.5	302,213	19.5
Net export	**(243,564)**	**(18)**	**(264,855)**	**(19)**	**(247,651)**	**(17.3)**	**(248,173)**	**(16.8)**	**(230,594)**	**(14.8)**
Exports of goods and services	390,386	28.9	393,657	28.2	391,098	27.3	426,693	28.9	491,767	31.7
Imports of goods and services	633,950	47.0	658,512	47.2	638,749	44.5	674,866	45.7	722,361	(46.5)
Changes in stocks	26,636	2.0	21,153	1.5	20,160	1.4	16,814	1.1	16,814	1.1
Statistical discrepancy	(14,396)	(1.1)	14,900	1.1	(5,138)	(0.4)	(20,649)	(1.4)	(52,688)	(3.4)
GDP	**1,350,053**	**100.0**	**1,395,305**	**100.0**	**1,434,307**	**100.0**	**1,475,251**	**100.0**	**1,552,868**	**100.0**

Source: INSTAT

Notes:

(1) Certain figures in this table have been revised and may differ from previously published data.
(2) Provisional data.
(3) Estimated data.
(4) NPI serving households includes expenditure provided by non-profit making institutions to households as social transfers in kind.

Principal Sectors of the Economy

The following table sets forth the value added composition of GDP, by economic activity, in both current prices and percentage terms for the years indicated.

GDP by Economic Activity(1)

	For the year ended 31 December									
	2013		**2014**		**2015**		**2016(2)**		**2017(3)**	
	(ALL millions)	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*	*(ALL millions)*	*(% of GDP)*
Agriculture, hunting and forestry	264,140	19.6	278,924	20.0	283,709	19.8	293,674	19.9	294,604	19.0
Industry	172,462	12.8	179,947	12.9	184,395	12.9	179,869	12.2	178,455	11.5
Extracting Industry	66,516	4.9	69,784	5.0	46,714	3.3	35,953	2.4	37,008	2.4
Manufacturing Industry	105,946	7.8	110,162	7.9	137,682	9.6	143,916	9.8	141,447	9.1
Construction	138,878	10.3	120,168	8.6	127,762	8.9	131,863	8.9	145,395	9.4
Total Services	602,218	44.6	638,804	45.8	663,861	46.3	688,570	46.7	737,979	47.5
Trade, Hotels and Restaurants.	171,146	12.7	179,299	12.9	180,308	12.6	189,480	12.8	204,799	13.2
Transport	42,569	3.2	41,915	3.0	43,771	3.1	45,170	3.1	49,045	3.2
Post and communication	37,807	2.8	39,015	2.8	42,644	3.0	45,418	3.1	46,446	3.0
Financial and insurance activities	30,359	2.2	35,160	2.5	38,975	2.7	35,776	2.4	38,724	2.5
Other services(4)	320,337	23.7	343,415	24.6	358,963	25.0	372,726	25.3	398,965	25.7
Gross value added at basic prices	**1,177,698**	**87.2**	**1,217,843**	**87.3**	**1,259,727**	**87.8**	**1,293,975**	**87.7**	**1,356,433**	**87.4**
Net Taxes on products	172,354	12.8	177,461	12.7	174,580	12.2	181,276	12.3	196,435	12.6
GDP at market prices	**1,350,053**	**100.0**	**1,395,305**	**100.0**	**1,434,307**	**100.0**	**1,475,251**	**100.0**	**1,552,868**	**100.0**

Source: INSTAT

Notes:

(1) Certain figures in this table have been revised and may differ from previously published data.
(2) Provisional data.
(3) Estimated data.
(4) "Other Services" includes public administration, health and education.

Agriculture

Agriculture is a key sector in the Albanian economy, accounting for 19.0% of GDP in 2017, as compared to 19.9% in 2016. In 2017, the agricultural sector grew by 0.8%, as compared to 2016. Albania's principal agricultural products are livestock, field crops and fruits. Approximately, 39.7% of all workers in Albania were employed in the agricultural sector in 2017, reflecting a decrease from 41.6% in 2016. See "*Risk Factors—Risks relating to Albania—Albania has a variable climate and may be subject to energy, food and water security risks*".

Historically, Albania has had a significant trade deficit in agricultural products with the EU, which in recent years has been decreasing (from 1:3.4 in 2016 to 1:2.9 in 2017 and the six months ended 30 June 2018). As part of the EU accession process, Albania is required to align its agricultural policies with the EU Common Agricultural Policy ("**CAP**"). CAP requirements place an emphasis on efficient management of natural resources, and alignment measures are expected to increase the efficiency of agricultural practices in Albania. In May 2018, the Government approved the EU's programme of providing financing to EU candidate countries. Pursuant to this programme, the EU is expected to provide €71 million in financial assistance to farmers to support rural development, and the Government will provide a further €23 million. The programme will be implemented under the EU's instrument for pre-accession assistance in rural development ("**IPARD II**"), which was established to assist with the implementation of the CAP and contribute to sustainable adaption of the agricultural sector.

The following table sets forth certain information regarding Albania's agricultural sector for the years indicated.

Agricultural Production by Product(1)

	As at 31 December				
	2013	**2014**	**2015**	**2016**	**2017**(2)
Agricultural production volume index of goods and services (*producer prices*)(3)	131.03	135.45	139.07	N/A	N/A
Total utilised agricultural area (*thousand hectares*)	674	697	641	714	703
Livestock (*thousand heads, end of year*)					
Cattle	*498*	*500*	*504*	*492*	*475*
Pigs	*152*	*172*	*171*	*181*	*180*
Sheep and goats	*2,723*	*2,800*	*2,850*	*2,913*	*2,895*
Production and utilisation of milk on farms (*total whole milk, thousand tonnes*)	1,070	1,101	1,105	1,131	1,129
Crop production (*thousand tonnes, harvested production*)					
Cereals (including rice)	*702.9*	*700.4*	*695.5*	*698.4*	*701.7*
Wheat	*294*	*280*	*275*	*275*	*274.9*
Vegetables	*924*	*950*	*1,030*	*1,129*	*1,151.9*

Source: INSTAT (unless otherwise noted)

Notes:

(1) Certain figures in this table have been revised and may differ from previously published data.

(2) Data for 2017 has been provided by the Ministry of Agriculture.

(3) Producer Prices for the previous year equal 100.

Agricultural Sector Reform

The Government's main policies for agriculture and rural development during the period 2018 to 2020 provide a framework for the development of a viable and competitive agricultural and food processing sector and balanced economic development in rural areas. These policies are expected to pave the way for continued integration of EU agricultural and agro-processing sector policies and to serve as a basis for increasing standards of living in rural areas and, accordingly, reducing poverty. Policy initiatives implemented to date in this sector include investing in: (i) agricultural holding assets; (ii) physical assets relating to the processing and marketing of agricultural and fishery products; (iii) farm product diversification; and (iv) business development and technical assistance. EU grants have supported development and reform in the fisheries and agro-processing sectors, which have supported increased exports of agricultural products in the six months ended 30 June 2018. See "*Balance of Payments and Foreign Trade—Foreign Trade*".

In 2016, the Government adopted its National Strategy on Land Consolidation, which aims to create economically viable, competitive and sustainable family farms by developing conditions for land consolidation and reducing the number of smallholdings reliant on subsidies. During the period from 2018 to 2020, the Government intends to implement this strategy through the adoption of various initiatives, including by drafting new and amending legislation, improving the rules on the reduction of payments and services at the Immovable Property Registration Office and developing a land information system to be used to partially digitise the agricultural land register.

In addition to the National Strategy on Land Consolidation, the Government intends to establish a fiscal cadastre, which is expected to consolidate all existing data on land, buildings and occupants and to be used to calculate the annual tax obligation associated with each property. In 2017, in line with this priority, the Government prepared a new property tax law, which entered into force on 1 April 2018. See "*—2018-2020 ERP Reform Priorities—Establishment of a fiscal cadastre*".

In July 2016, the European Bank for Reconstruction and Development (the "**EBRD**") and the Government launched the Albania Agribusiness Support Facility. This facility is aimed at enhancing access to finance for local agribusinesses by providing direct credit lines or by sharing the risk of lending to the agribusiness sector with partner financial institutions. The Government has made available €36 million over three years to support the facility, and the EBRD is providing up to €100 million in funding and risk sharing facilities. A number of financial institutions have signed a memorandum of understanding to participate in the programme. See "*Public Debt—Relationships with Multilateral Financial Institutions—European Bank for Reconstruction and Development*".

Industry

Albania's industrial sector comprises principally manufacturing and extraction. Industrial output increased by 2.6% in 2017, as compared to 2016.

Albania's manufacturing sub-sector includes primarily the manufacturing of food products, beverages and tobacco, textiles and textile products, electricity production, tanning and dressing of leather, luggage and handbags and wood and wood products. In 2017, the manufacturing sub-sector accounted for 9.1% of Albania's GDP, as compared to 9.8% in 2016.

The extraction sub-sector comprises mining and quarrying of energy producing materials, mining of metal ores and other mining and quarrying. Chromium, ferro-nickel, copper, coal and oil and gas are among the most important sub-soil minerals in Albania. In each of 2017 and 2016, the extraction sub-sector accounted for 2.4% of Albania's GDP, which decreased from 6.3% of GDP in 2014 primarily due to a fall in global oil prices and other mineral prices.

The 2014-2020 business and investment development strategy, which was adopted in 2014, sets the strategic framework for Albania's enterprise and industrial policy and addresses its strategic approach to industry and competitiveness. This strategy has been developed in line with the South-East Europe 2020 regional initiative, which in turn, is based on the EU's Europe 2020 strategy, a ten-year strategy for advancement of the EU economy. The business and investment development strategy is sets out the roadmap for: (i) business development, including SMEs and increased competitive skills; (ii) developing innovation; (iii) promoting sustainable growth; and (iv) creating the conditions for attracting FDI. In January 2017, the Government adopted an action plan based on a "triple helix" model that incorporates measures requiring the involvement of the public and private sectors, together with universities to implement the business and industrial development strategy.

Since 2014, the Government has introduced a number of policies and initiatives to support SMEs and the fashion industry, including the following:

- ***Supporting business innovation and competitiveness:*** The main objective of this initiative is to increase the innovation and technological capabilities of SMEs, in accordance with the recommendations of the European Commission under Sub Committee for Trade, Industry, Taxation and Customs 2014.

- ***Strengthening the technological capacity of SMEs:*** The strengthening of the technological capabilities of SMEs has been carried out under the framework of the Strategic Program on the Development of Innovation and Technology of SMEs 2011-2016, which was approved by the Council of Ministers in 2007. Several funds have been put in place to support this programme and are managed by the Albanian Investment Development Agency ("**AIDA**"). The funds are aimed at improving SME access to financial resourced in a wide spectrum of their activities including start up phase of their operation, creativity, innovation, and competitiveness.

- ***SMEs Lending Scheme:*** In the context of the Italian-Albanian Programme, lending schemes have been offered to SMEs since 2009 with support from credit lines and technical assistance under the programme. In April 2016, the most recent lending scheme was launched, which is funded by on-lending agreements entered into between the Ministry of Finance and Economy and eight private commercial banks and three non-banking institutions. This funding comprises a credit line of €11 million to provide loans to Albanian SMEs, a guarantee fund of €2.5 million and direct technical assistance of €1.5 million. Pursuant to this new lending scheme, nine SMEs are receiving funding in a number of economic sectors, including the agriculture and textile sectors. Two SME projects are also being supported by the guarantee fund.

- ***The Fashion Package:*** This package aimed at streamlining administrative procedures, mainly tax procedures, in the active processing (textile) industry. Proposals were based on input from key industry participants, including in respect of the process for obtaining VAT reimbursements, the shortening of tax administrative appealing processes and the increase of the list of machinery and equipment benefiting from VAT exemptions when imported for investment purposes. The package represented a combination of legal and administrative measures coordinated with financial support and has led to 16 pieces of legislation, reflecting significant Government support for the industry, including the leasing of certain public land for peppercorn rents of €1, reducing custom duties for fashion industry participants, reimbursing VAT on exports in this sector, excluding certain imported equipment and machinery from VAT and introducing an employment incentivisation programme. The package has positively impacted technological development, new product design development and the quality of products in the footwear and garment industry. As a consequence of this policy, companies operating in the fashion industry have been able to increase their competitiveness and export activities. In addition, investments in labor force has led to an increase in foreign investment in the industry.

Industrial Sector Reform

In recent years, the Government has been working to promote the processing of Albania's natural resources, including minerals such as nickel-silicate or quartzite and leather and to support the industrial sector by providing financial support to pre-feasibility assessments and technical-economic studies in cooperation with scientific research institutions. In 2014 and 2015, the Ministry of Energy and Industry ("**MEI**"), in collaboration with the National Agency of Natural Resources, carried out a technical and economic study on the copper industry to compare the actual level of processing conducted in Albania with full cycle processing. A study on the leather-footwear industry is currently being carried out and is expected to be completed by the end of 2018. The Government has also offered financial support for two further studies, in the nickel-silicate and quartzite industries, in cooperation with scientific research institutions, the results of which the MEI intends to use to develop the investment potential of such industries. Based on the findings of the studies, the MEI intends to promote these sectors with a view to increasing investment potential.

Construction

The construction sector has been a significant contributor to Albania's economic growth over the past ten years, as the sector has benefited from high levels of both private and public investment. The construction sector accounted for 9.4% of GDP in 2017, as compared to 8.9% of GDP in 2016.

During 2017, construction activity increased by 9.6%, reflecting an increase in the number of building permits issued, which was, in turn, due to increased construction of residential buildings and the realisation of civil engineering works, as well as an increase in construction activity related to two large energy projects: the construction of a new 278 MW plant hydropower plant on the Devoll River (the "**Devoll Project**") and the construction of the TAP. See "*—Energy—Energy Sector Reform*".

Financial and Insurance Activities

The contribution of financial and insurance activities to the Albanian economy increased between 2013 and 2017, facilitated by a stable, liquid and well-capitalised banking sector. Financial and insurance activities accounted for 2.5% of GDP in 2017, as compared to 2.4% of GDP in 2016. See "*Monetary and Financial System—The Albanian Banking Sector*".

The NPL ratio has declined in recent years and banking sector profits have been recovering as a result of lower provisioning needs. Bank lending is financed predominantly with deposits. Credit growth remains moderate reflecting, among other factors, deleveraging policies of parent groups of EU banks and a reluctance of banks to lend to corporates. In 2017, banking sector credit amounted to 39.2% of GDP, and money supply amounted to 81.6% of GDP, as compared to 41.3% and 85.6% in 2016, respectively.

The bank lending portfolio is dominated by foreign currency lending (principally in Euros), which represented 56.5% (including 46.4% in Euros) of total loans as at 30 June 2018. This ratio has been declining since 2013. In particular, the high Euroisation of the banking sector has increased the vulnerability of the banking sector and led the Ministry of Finance and Economy, the Bank of Albania and the Albanian Financial Supervisory Authority (the AFSA) to adopt a de-Euroisation policy.

See "*Monetary and Financial System—The Albanian Banking Sector*" and "*Risk Factors—Risks relating to Albania—The Albanian banking sector has a high level of NPLs, as well as significant lending in foreign currency*".

The following table sets forth certain information on the banking sector, including with respect to credit granted to the economy ("**CE**"), as at the dates indicated.

Credit to the Economy

	As at 31 December					As at 30 June
	2013	2014	2015	2016	2017	2018
			(%)			
CE(1) (total)/GDP(2)	40.6	40.1	40.0	39.9	39.2	36.9
CE(1) (foreign currency)/GDP(2)	24.3	23.4	22.8	21.6	20.7	19.4
CE(1) (domestic currency)/GDP(2)	16.3	16.7	17.2	18.3	18.4	17.6
CE (total)/deposits(3)	56.1	55.0	55.1	53.9	54.9	54.3
M3/GDP(2)(4)	85.1	85.7	84.8	85.6	81.6	76.9
Total deposits/GDP(2)	72.4	73.0	72.6	74.0	71.4	68.1

Source: The Bank of Albania

Notes:

(1) CE represents total credit to residents as adjusted for write offs (principally of NPLs) during 2015-2018. See "*Monetary and Financial System—The Albanian Banking Sector—Non-Performing Loans*".

(2) GDP figures are nominal GDP.

(3) Deposits represent total deposits of Albanian banks.

(4) See "*Monetary and Financial System—Money Supply*".

As at 30 June 2018, total CE was 54.3% of total deposits, as compared to 54.9% as at 31 December 2017.

Total CE as a percentage of GDP decreased from 39.9% as at 31 December 2016 to 39.2% as at 31 December 2017 and 36.9% as at 30 June 2018. This decrease is primarily due to the appreciation of the Lek against a number of foreign currencies, as well as the prepayment and settlement of certain state-owned entity loans.

See "*Monetary and Financial System—Monetary Policy*" and "*Monetary and Financial System—The Albanian Banking Sector—Non-Performing Loans*".

Energy

The energy sector is a priority reform sector for the Government. As much as 98.0% of Albania's domestic electricity production is from hydroelectric sources, which causes Albania's actual annual electricity production to fluctuate. Albania imported 49.5% of its total energy needs from various sources in 2017, including hydropower sources, under long-term supply contracts. Energy imports increased by 86.3% in 2017, as compared to 2016, primarily due to drought in 2017, which caused a 36.6% decrease in domestic electricity generation and supply in 2017 (representing a 42.7% decrease in electricity production at public hydropower plants and a 21.3% decrease at private and concessional power plants), as compared to 2016. See "*Risk Factors—Risks relating to Albania—Albania has a variable climate and may by subject to energy, food and water security risks*".

In the past, Albania's economic growth has been hampered by inadequate energy and transportation infrastructure. There are occasional electricity outages, which are maintenance-related and not a result of insufficient supply. Advance notice is generally given to the public when maintenance-related interruptions take place. Progress has been made on improving the electricity services and significantly reducing the frequency and length of outages, in part as a result of investments made in recent years.

The following table sets forth certain details of Albania's energy sector for the years indicated.

Energy Production and Consumption[(1)]

	For the year ended 31 December				
	2013	**2014**	**2015**	**2016**	**2017**
	(TOE thousands, except as indicated)[(2)]				
Primary production of all energy products	2,041	2,021	2,117	2,013	N/A
Crude Oil	*1,207*	*1,368*	*1,279*	*1,056*	*N/A*
Hard coal and lignite	*2.0*	*0.0*	*69.0*	*4.2*	*N/A*
Natural gas	*16*	*28*	*30*	*79*	*N/A*
Net imports of all energy products	1,306	1,456	1,277	1,306	N/A
Gross inland energy consumption	2,106	2,106	2,014	2,078	N/A
Electricity generation (*thousand GWh*)	7,674	4,036	4,725	6,959	4,726

Source: National Agency of Natural Resources

Notes:

(1) Certain figures in this table have been revised and may differ from previously published data.

(2) TOE means "tonnes of oil".

In line with EU directives and the 20/20/20 Initiative of the EU (legislation aimed at helping the EU meet its climate and energy targets of: (i) cutting greenhouse gas emission by 20%; (ii) increasing energy derived from renewable sources by 20%; and (iii) improving energy efficiency by 20%) and the Energy Community Treaty (a treaty with the principal objective of expanding the EU internal energy market to neighbouring countries willing to adopt the EU's energy standards), the main objectives of Albanian energy policy are to increase the security of electricity supply for all customers and to increase the diversification of energy sources for electricity production. Domestically-produced energy is generated exclusively by hydropower, and, accordingly, diversification is achieved only through the import of electricity. The Government plans to construct a number of thermal power plants with an aggregate maximum installed capacity of 1.0 GW. These thermal power plants are expected to be supplied with natural gas following completion of the TAP. See "*—Energy Sector Reform*".

The financial condition of KESH, the state-owned electricity generation company, has deteriorated since mid-2006, and KESH is in the process of implementing a major restructuring programme. KESH supplies approximately 70-75% of Albanian customers' demand for electricity and is also responsible for the administration of the power plants it operates. In July 2016, the EBRD granted KESH a €218 million loan to support its company restructuring and reform efforts. The loan matures in 2045 and benefits from a sovereign guarantee issued by the Government. See "*Public Debt—Relationships with Multilateral Financial Institutions—European Bank for Reconstruction and Development*".

Drought conditions in 2017 had a significant negative impact on hydroelectric power generation in Albania. This decrease in production, coupled with record electricity demand, primarily for air conditioning and related uses, resulted in increased electricity imports by state-owned electricity distributor OHSEE and KESH, with support from the Government. The increase in such imports negatively affected the financial results of these companies in 2017 and OHSEE announced a decrease in its net profit from ALL 18.7 billion in 2016 to ALL 1.8 billion in 2017.

Energy Sector Reform

The Government has been pursuing an ambitious energy sector reform project to increase production capacity, transmission capacity and distribution and to reduce technical and non-technical losses across the distribution network, by improving the legal framework and implementing changes to the Penal Code. In recent years, the Government has taken the steps set out below to further its energy sector reform efforts:

<u>Policies and legislation</u>

- The Government adopted guidelines and orders on policy and strategic steps for safely managing radioactive waste in 2010 and has ratified a number of international treaties, including, *inter alia*, the Convention on Nuclear Safety in 2011. Albania has no nuclear power plants, and there are no plans for the construction of such plants.

- In 2014, the Penal Code was amended to make electricity theft punishable by imprisonment. In connection with such amendments, a campaign was launched in October 2014 to enforce criminal penalties for electricity theft and to disconnect services for non-payment. Such measures are also being supported by investments in metering, grid infrastructure and upgrades to Albania's commercial billing and connection system.

  Monthly general electricity distribution losses (including technical and non-technical (*i.e.,* theft) losses) have decreased from 53% in December 2013 to 19.8% in September 2017, with annual electricity distribution losses decreasing from 38% in 2014 to 26.4% in 2017. According to statistics published by INSTAT, general electricity distribution losses decreased by 5.5% in 2017, as compared to 2016, partially as a result of the implementation of measures to punish electricity theft. Efforts have also been made to increase the bill collection rate for electricity distribution, with the annual collection rates increasing from 78% in 2014 to 86% in 2016 and monthly collection rates increasing from 86.9% in January 2017 to 94.7% in September 2017.

- Tariff adjustments entered into effect on 1 January 2015. The principal aims of these tariffs were to simplify the tariff structure and support efforts to reduce electricity theft. The tariff adjustments included (i) restructuring the retail tariff for households by eliminating the subsidised lower block and implementing a single tariff of ALL 9.5 per kW); (ii) increasing tariffs for commercial users ranging from 10% to 39%; (iii) adjustments in the purchase price for electricity from independent power producers to reflect current import prices, based on a benchmark price from the Budapest Power Exchange. Despite certain further tariff adjustments for transmission and business users since 2015, the end user electricity tariff for households remains unchanged since 2015 at ALL 9.5 per kW.

- A new energy sector law was adopted by the Assembly in April 2015 and came into effect in May 2015. The new law provides for further liberalisation of the energy sector, in particular the electricity sector, in line with the EU Electricity Directive.

- On 23 September 2015, the Assembly approved Law № 102 "On Natural Gas Sector" requiring the unbundling of production activity from the activities of natural gas transmission and distribution. In July 2016, the Council of Ministers approved the establishment of Albgaz S.A. as a combined operator for the transmission and distribution of natural gas.

- In 2015, the Assembly approved the restructuring of OSHEE, to separate energy supply from distribution services. In April 2018, OSHEE announced that it had completed the unbundling of its operations by registering three separate companies; an electricity distribution operator, an electricity supply company and a universal service provider. Following this unbundling, OSHEE will manage and co-ordinate the three new companies. The Government has also encouraged OSHEE and other state-owned companies in the energy sector to undertake corporate governance reforms.

- In February 2017, the Assembly passed legislation permitting the establishment of the Albanian Power Exchange. The Albania Power Exchange is expected to work initially with industrial consumers, which pay unregulated prices and represent approximately 10% of the power consumed in the country. The Albania Power Exchange is expected to be established during 2019, and the Government is in the process of considering partners to operate the exchange alongside the state-owned transmission system operator.

- In March 2017, the Energy Regulatory Entity (the "**ERE**"), the Albanian energy regulator, approved the certification of a transmission system operator (OST SA), following a positive opinion from the Energy Community Secretariat.

- In March 2018, the Government announced the adoption of a National Energy Strategy for 2018-2030, which promotes low emission developments and creates opportunities for private sector investment and clean growth. Pursuant to the strategy, the Government aims to: (i) reduce power distribution losses from 26.4% in 2017 to 10% by 2030; (ii) improve the collection rate of power bill payments from 90% in 2018 to 98% by 2030; and (iv) reduce greenhouse gas emission by 11.5% by 2030 (in line with the Paris Agreement (within the United Nations Framework Convention on Climate Change), which was signed in September 2015 and ratified in May 2016). The strategy was drafted with the support of international donors, including the United States Agency for International Development.

The Government's fiscal support to the power sector decreased from 0.9% of GDP in 2014 to 0.1% of GDP in 2017. The Government also plans to increase regional co-operation (including through the development of infrastructure projects (see "*—Infrastructure Development*")) to further reform the energy sector.

<u>*Infrastructure Development*</u>

A number of major infrastructure projects are also ongoing or planned in the energy sector:

- ***The Devoll Project.*** The Devoll Project is the first large-scale PPP investment project being undertaken in Albania and one of the largest hydropower investments in the Balkans region. The Devoll Project is being undertaken in conjunction with Norwegian company Statkraft using a build operate transfer model. The Devoll Project includes the construction of three hydropower stations on the Devoll River and is expected to generate approximately 789 GWh of electricity annually, increasing Albanian electricity production by almost 20.0%. The cost for the two first plants is estimated at €535 million. The Devoll Project initially consisted of two power plants, Banja, which was completed in September 2016 and is operational, and Moglica, which is expected to be completed in 2019. A third hydropower plant, Kokel will be considered once the first two hydropower plants have been completed. The Devoll Project is not financed through the Government budget.

- ***Construction of the TAP.*** The TAP will transport natural gas from the Turkish-Greek border through South Eastern Europe to its tie-in point in Southern Italy. In 2016, the first phase of TAP's road infrastructure rehabilitation in Albania was completed. As at 31 July 2018, more than 75% of the project has been completed. The participants in TAP are BP, State Oil Company of the Azerbaijan Republic ("**SOCAR**"), Snam S.p.A, Fluxys, Enagás and Axpo. TAP is expected to have a direct impact on the Albanian economy commencing in 2017, with expected contributions to GDP and the creation of approximately 3,500 jobs (of which 85.2% are expected to be in Albania). It is currently, however, too early to determine the impact of the TAP on GDP and job creation. Construction of the TAP is expected to cost approximately €1.5 billion, of which 20% is expected to be invested by BP, 20% by SOCAR, 20% by Snam, 19% by Fluxys, 16% by Enagás and 5% by Axpo. This activity is also expected to raise revenue for the Government, both in direct financing and through indirect projects. The TAP is expected to be completed in 2019 and to become operational in 2020.

- ***Construction of the IAP.*** The IAP will transport natural gas between Albania, Montenegro, Bosnia and Herzegovina and Croatia and is expected to be connected to the TAP. The construction of the pipeline is expected to begin in 2021 and the length of IAP is expected to be 516 km with capacity to transport 5 billion cubic metres of natural gas per year. Construction of the IAP is expected to cost a total of approximately €615 million. In February 2018, a memorandum of co-operation was signed by the IAP participants to establish a project company to construct the IAP. The participants in IAP are Plinacro of Croatia, Albgaz of Albania and Montenegro Bonus of Montenegro. The preliminary technical design for the IAP is expected to be completed in 2020. Construction of the IAP is not expected to be financed through the Government budget.

- ***Albania – Macedonia Interconnection Line.*** Completion of the construction of the 400 kV interconnection line between Albania and Macedonia, which is expected in 2021 and is being financed by: (i) a loan of €50.0 million from Kreditanstalt für Wiederaufbau Development Bank ("**KfW**"); (ii) a grant of €14 million from WBIF; (iii) a grant from the German government of €575,000 to be used for expert services; (iv) a detail design grant of €600,000 from WBIF for the detail design phase of the project; and (v) funds of €5 million from OST SA.

Each of the Devoll Project, the TAP and the IAP are expected to contribute to the development of Albania's energy sector, as well as, in the case of the TAP and the IAP, the diversification of Albania's energy supply.

In line with its energy sector reform plan, Albania is also pursuing initiatives to increase consumer awareness regarding correct uses of electricity and to simplify procedures for the issuing of construction permits for power generation facilities.

In total, hydropower plants with an expected aggregate capacity of 1,229.5 MW are currently under construction or preparatory phases for construction, including projects on the Osumi, Shale, Curraj and Fan rivers, each with expected installed capacities of 85 MW or more.

In November 2017, the Government announced that it intended to offer PPP incentives for the construction of two new hydro and liquid gas fired thermal power plants to be built in the southeast region of Korca and the southwest town of Kucova, as part of the TAP project. The Government has also announced its intention to put the Vlora thermal power plant into operation upon completion of the TAP by constructing a gas pipeline connecting the power plant to the TAP pipeline at a compression station located in the Fieri region. The Vlora thermal power plant was constructed in 2011 but has not operated due to high power generation costs and technical difficulties with the cooling system. The cooling system at the Vlora thermal power plant is expected to be repaired and the power plant to be changed from oil to natural gas fuel.

All such reform measures are intended to facilitate: (i) increased security of the supply of uninterrupted power to all customers; (ii) increased performance of the electricity sector; and (iii) increased competition in the market and benefit for the consumers.

Albania has deposits of petroleum and natural gas and proven oil reserves of approximately 220 million tonnes. The major oil fields in Albania include the Patos-Marinza heavy oil field and the Kuçova heavy oil field. In January 2018, Shell announced it had begun drilling an oil appraisal well in the Shpiragu mountain complex, Shpirag-4. Shpirag-4 is the fourth well drilled by Shell in this complex.

Services

The services sector is the largest sector in the Albanian economy. It consists of trade, hotels and restaurants, transport post and communications and other services. The services sector as a whole represented 47.5% of Albania's GDP in 2017, as compared to 46.7% in 2016. Supported by a positive tourist season in 2017, the trade, hotels and restaurants sub-sector increased by 4.6% in 2017, as compared to 2016.

Tourism

Tourism is one of the most important components in Albania's services sector, contributing 8.5% to GDP in 2017, as compared to 8.4% in 2016, and creating 93,000 jobs in 2017 (accounting for 7.7% of total employment), according to the World Travel and Tourism Council ("**WTTC**"). According to statistics published by INSTAT, arrivals of foreign citizens in Albania between 2013 and 2017 have increased on average by 12.0%, while non-residents' total expenditures in Albania have increased on average by 8.5% over the same period. In 2016, Albania had capacity for 41,376 beds for visitors in 1,242 accommodations, according to information published by INSTAT.

Albania's largely undeveloped coastline, mountains and historical heritage, as well as its location in Southern Europe, less than two hours from a number of high-income countries, makes tourism a potential growth sector for the Albanian economy.

The following table sets forth certain details regarding the tourism sector for the periods indicated.

Tourism Activities[(1)]

	For the year ended 31 December				
	2013	**2014**	**2015**	**2016**	**2017**
Total Arrivals (*thousands*)	6,910	7,545	8,230	9,329	9,970
Albanian	*3,654*	*3,872*	*4,099*	*4,593*	*4,852*
Foreign	3,256	3,673	4,131	4,736	5,118
Africa	0.9	0.9	3	*1*	*2*
America	73	90	97	*104*	*124*
East Asia and Pacific	24	31	33	*36*	*54*
Middle East	4	3	4	*4*	*5*
South Asia	1	1	2	*2*	*2*
Europe	2,964	3,424	3,759	*4,485*	*4,687*
Other	190	123	234	*103*	*245*
Total Number of Tourist Nights (*millions*)	15.6	19.5	20.8	*28.9*	*26.8*
Tourism Income (*U.S.$ millions*)	1,107	1,283	1,352	1,528	1,708

Sources: INSTAT and World Bank

Note:

(1) Certain figures in this table have been revised and may differ from previously published data.

According to statistics published by the WTTC, travel and tourism is expected to have attracted capital investment of ALL 32.2 billion in 2017, as compared to ALL 27.8 billion in 2016, ALL 26.6 billion in 2015, ALL 24.7 billion in 2014 and ALL 24.6 billion in 2013. Non-residents' total expenditure in Albania is estimated to be €1.8 billion in 2017, as compared to €1.6 billion in 2016, €1.5 billion in 2015, €1.4 billion in 2014 and €1.3 billion in 2013.

Policy initiatives in the tourism sector are focused on making Albania an attractive and sustainable destination for tourists. The National Strategy for Development and Integration for 2014 to 2020 ("**NSDI**") aims, in particular, to encourage the development of middle-to high-end sustainable tourism through the following strategic goals: (i) establishing an international standard certification system; (ii) incentivising the development of (high-end) non-traditional tourism; (iii) focusing public infrastructure provision in areas of current and potentially high tourist demand; and (iv) creating a greater international awareness of Albania's natural environment, traditional heritage and hospitality. In line with these strategic goals, in June 2017, the Government reduced the rate of VAT applicable to tourism accommodation services to 6% from the standard VAT rate of 20% and introduced a fiscal incentive package for certain internationally-known four- and five- star hotels, including a ten-year profit tax exemption. These hotels have until December 2024 to obtain the necessary status to take advantage of these incentives. The proposed construction of an airport in Vlora is also expected to contribute to growth in the tourism sector. See "*—Transport and Infrastructure*".

The Government is in the process of creating a database of updated information for businesses in the tourism sector, with the aim of achieving growth in tourism investments and supply of tourist activities.

The Government is also developing tourist destinations and resources, offering types of natural tourism, cultural tourism and costal tourism. Such measures are expected to increase job creation, international arrivals, international tourism receipts and tourism investment. The Government has budgeted to spend an additional ALL 52 billion on such initiatives from 2018 to 2020. The majority of the remaining funds to be invested in tourism between 2018 and 2020 are expected to be spent on improving road infrastructure and the reconstruction of urban districts in tourist areas. In November 2016, the World Bank approved a loan of U.S.$71 million in respect of an Integrated Urban and Tourism Development Project aimed at improving urban infrastructure, enhancing tourism assets and strengthening institutional capacity to support tourism-related economic development in selected areas in the south of Albania. The project, which began on 30 April 2017 following the ratification of the loan agreement by the Assembly, is expected to be completed on 31 July 2022. Construction work to improve infrastructure is currently underway, with work taking place on public staircases in Saranda and on the Mihal Komneno road in Berat. In August 2018, the World Bank published its implementation and results report for this project, which noted that work on the staircase projects had commenced and construction works on rehabilitating the Bazaar cobblestone roads in Gijirokastra and installing street lighting improvements in Permet were scheduled to be started shortly.

The Government is in discussions with the EBRD for the provision of a sovereign loan facility to finance tourism initiatives and general municipal infrastructure and transport infrastructure (the "**AITP**"). The AITP, if approved, is expected to be co-financed with an EU grant for the rehabilitation of cultural and natural heritage sites.

Transport and Infrastructure

During 2017, the transport sector increased by 5.1% as compared to 2016 as a result of the impact on transport and infrastructure from the growth in the tourism, trade and construction sectors. The transport sector accounted for 3.2% of GDP in 2017, as compared to 3.1% of GDP in 2016. The post and telecommunications sector increased by 1.3% in 2017, as compared to 2016.

Although recent measures have been adopted to improve the transportation infrastructure, Albania has a limited railway system and only one international airport. As a result of Albania's mountainous terrain and poor road conditions, the transportation of goods by land is arduous and costly.

In November 2016, the national transport strategy and action plan for 2016-2020 was adopted, including the development of a sustainable transport network and improve energy efficiency.

In January 2018, the Ministry of Infrastructure and Energy published plans for the construction of a new airport in Vlora. Construction of the airport is expected to be completed by the end of 2020 and negotiations with a consortium of companies to construct the airport are in the final stages.

Roads

The Government is implementing a number of key projects and initiatives to improve Albania's road network and infrastructure, including:

- ***Construction of highway linking Tirana and Macedonia (Arberi Road)*** - In February 2018, the Government signed a contract with Gjoka Konstruksion for a construction and maintenance project in respect of the remaining part of the highway linking Tirana to the Dibra region and Macedonia, known as the Arberi Road. The Arberi Road is intended to enhance economic and social development in northeast Albania and to improve the movement of traffic and reduce travel time, vehicle operating costs and the number of accidents. The project is estimated to cost approximately U.S.$298 million and is being conducted as a PPP project. Funding from the Government budget for this project starting in 2019 has been included in the medium-term budget plan and is expected to amount to an average annual amount of U.S.$24 million. Construction began in May 2018 and is expected to take three years to complete. Once completed, Gjoka Konstruksion will operate the road for a period of 13 years.

- ***Feasibility study for construction and upgrade of the Adriatic-Ionian Corridor*** **-** The Adriatic-Ionian Highway/Expressway is a strategic project, which is expected to provide a better road connection with neighbouring countries establishing a competitive, reliable and safe transport system. The project is expected to include the construction of the following highways in Albania: (i) the Lezha bypass (with an estimated cost of €24.6 million; when funds are available, this project is expected to be financed from the Government budget; this project is not yet included in the medium-term budget programme); (ii) the Tirana bypass (with an estimated cost of €109 million; when funds are available, this project is expected to be financed from the Government budget; this project is not yet included in the medium-term budget programme); (iii) the Tepelena bypass (with an estimated cost of €23 million; construction work on this bypass has commenced and is being financed through the Government budget starting in 2018 (and is accounted for in the medium-term budget programme)); (iv) the Gjirokastra bypass (with an estimated cost of €38 million; when funds are available, this project is expected to be financed from the Government budget; this project is not yet included in the medium-term budget programme); and (v) upgrades to the Thumana-Kashari bypass (with an estimated cost of €169.3 million; this project is being conducted as a PPP project; funding from the Government budget for this project starting in 2020 has been included in the medium-term budget plan and is expected to amount to an average annual amount of €20 million). In December 2015, the Western Balkans Investment Framework (the "**WBIF**") approved a grant of €4 million for a feasibility study in relation to the construction of a highway between Albania and Montenegro. The feasibility study began on 15 November 2017 and is expected to be completed in May 2019. The Fieri Bypass, which comprises part of the highway, is currently under construction. Construction of the remaining parts of the project are expected to be offered for tender. The Fieri bypass is estimated to cost approximately €70 million, of which €30 million has already been financed. The remaining €40 million is expected to be financed from the Government budget between 2018 and 2021.

- ***Adoption of a Road Safety Strategy:*** In February 2011, the Government adopted a road safety strategy and, in January 2014, the inter-ministerial Road Safety Committee approved a package of road safety measures, including a review of speed limits, additional road signage, improvement of "black spots", elimination of level crossings on the national network, launch of a public awareness programme and removal of certain measures for offenders. These measures aim to reduce road fatalities by 50% by 2020, as compared to 2009 levels. In 2017, road fatalities reduced by 41.2%, as compared to 2009 levels. Further improvements in road safety are expected to be realised through the allocation of additional funds to various initiatives**,** including through PPPs.

- ***Completion of the Tirana-Elbasan Road:*** This road is expected to facilitate traffic to Greece and Macedonia. While two sections of the road were completed in 2014 and are open to traffic, construction works on the remainder of the road have been interrupted on a number of occasions. Construction is expected to be completed by the end of 2018. The total cost of construction has also increased and it is currently expected to be approximately U.S.$450 million, which is being financed from the Government budget. Construction of the Tirana-Elbasan Road is expected to improve economic and social development in the regions of Central, South and South East Albania.

Railways

In recent years, development and reform programmes in the railway industry have focused on transposing European legislation, as a precondition for comprehensive institutional reform and the profiling and strengthening of the administrative capacity of the railway. The third review of the national transport plan will be initiated in 2018. A new railway code was adopted in December 2016 and entered into force in January 2018. The new railway code aims to regulate railway transport by separating train operations from infrastructure management, in line with EU requirements. Implementing legislation is being prepared for the establishment of relevant structures and agencies, in particular the Railway Regulatory Authority. One private railway operator is licensed for freight transport.

On 21 March 2016, the National Investment Committee approved the Tirana-TIA-Durrës railway project as a key priority for the Government. The Tirana-TIA-Durrës railway is part of the Western Balkans Core Network 2 Route that connects the cities of Podgorica in Montenegro and Vlora in Albania and is also designated as an indicative extension of Trans-European Transport Networks Railway of the Western Balkans. The project is expected to improve the connectivity of Albania's main cities with the Port of Durres and TIA. The project also includes sectorial reforms and measures aimed at strengthening the national railway company, Albanian Railway. Tendering for the construction contract for the Tirana-TIA-Durrës railway project began in April 2018 and the contract is expected to be awarded, and construction works are expected to begin, by the end of 2018. The project is expected to be completed in 2020 with an estimated total cost of €90.5 million. The Tirana-TIA-Durrës railway project is being co-financed by an EBRD loan of €36.9 million granted on concessional rates and EU/WBIF grants of €36.7 million, which consist of an investment grant of €32.9 million and technical assistance grants of €2.5 million for the works supervision and project implementation support. In addition, WBIF grants of €2.75 million were provided for project preparation. The remaining costs, which are comprised of VAT and local expenses, will be financed by the Government. See "*Public Debt—Relationships with Multilateral Financial Institutions—European Bank for Reconstruction and Developmen*t".

Other projects for the improvement of railway infrastructure include:

- ***Rehabilitation of the Vora–Hani Hotit railway line****:* A detailed design for rehabilitation works to the Vora-Hani Hotit railway line, which are expected to include: (i) the construction of support structures; (ii) the construction of thirteen railway stations and related infrastructure; (iii) the installation of signalling and safety systems and information boards; and (iv) the laying of railway tracks, is expected to begin by the end of 2018. The rehabilitation project is being financed by a €4.7 million grant from WBIF, which was approved in December 2016, and an EBRD loan of U.S.$34 million.

- ***Construction of a Pogradeci–Korça railway line***. A pre-feasibility study for the construction of a railway link between Albania and Greece has been approved by the Hellenic Railways Organisation and the Albanian Ministry of Infrastructure and Energy, under the Interreg Europe Programme, which is an EU programme that aims to help regional and local governments across Europe to develop and deliver better policy. The pre-feasibility study is estimated to cost €0.9 million and is expected to begin by the end of 2018. The proposed funding for the railway line has not yet been determined.

- ***Rehabilitation of Durrësi–Pogradeci–Lini railway and the construction of a railway link between Lini and the border of Macedonia.*** The feasibility study for this project was completed in January 2018 and the preliminary design of the Durrësi–Rrogozhina portion of the railway line is expected to be completed in 2018. Applications for funding were submitted to the WBIF in September 2018.

Maritime Transport

Albania has a large coastline and, accordingly, Albania's ports, particularly the Durres port, constitute a significant economic resource, acting as a transport hub for the Adriatic region. In recent years, the Government has invested funds and developed a number of initiatives for port infrastructure construction, including:

- ***Durres Port Rehabilitation:*** The first phase of this rehabilitation project included construction of the passenger terminal and ferry sites and was completed in 2013. The Durres port is now operating at full capacity. The second phase of this project, the rehabilitation of two quays, was completed in June 2018. The estimated cost for this rehabilitation is €18 million, which was funded by the European Investment Bank ("**EIB**") and the EBRD. A feasibility assessment in respect of the dredging of Durres port basin has been completed and investors are being sought to finance this project.

- ***Vlora Port Rehabilitation:*** This rehabilitation project includes the construction of two quays for civilian traffic (ferries of up to 120 m in length), an additional quay for cargo ships and a passenger terminal, as well as the reconstruction of port facilities. The estimated total cost of this project is €15.3 million, which is being financed by funds from *Cooperazione Italiana per lo Sviluppo*. Work on the project is currently paused but is expected to restart in the coming months.

Post and Communications

According to statistics published by INSTAT, the post and communications sector contributed 3.0% of GDP in 2017 and 3.1% of GDP in 2016.

Fixed broadband internet penetration in Albania is low due to the limited coverage of the fixed telephony network. Fixed broadband penetration has, however, increased steadily in recent years to reach approximately 40% of households in 2017, while mobile internet penetration is approximately 80%. In rural areas (which account for 40% of the population), only 1% of households are connected to the internet.

According to statistics published by the Albanian Authority of Electronic and Postal Communications, as at 30 June 2018, there were 2.7 million active users of mobile telephony and 1.7 million active users of mobile broadband internet from mobile phones. The number of fixed telephony customers has been stable in recent years at approximately 250,000 subscribers. The number of fixed broadband subscribers as at 30 June 2018 was 319,000, reflecting a 9% increase as compared to the number of fixed broadband subscribers as at 31 December 2017. Use of traditional mobile telephony services (including voice calls and SMS) has been in decline in the last two years, while usage of mobile broadband services has grown; mobile data usage in 2017 was 18 times higher than in 2013. Internet penetration in Albania, according to data published by the International Telecommunications Union, is estimated to be over 66%, while mobile internet penetration was approximately 80% as at 31 December 2017. Competition in the electronic communications market has increased, and, in 2018, there were three mobile telephony operators active in the market providing mobile telephony and broadband services (3G/4G), 76 fixed telephony network operators and 170 providers of internet access services.

Between 2008 and 2013, a number of laws relating to electronic communications were adopted to: (i) eliminate obstacles to the efficient functioning of the internal market in electronic communication networks and services; (ii) promote competition in the internal market; and (iii) protect consumers.

The cross-sectoral strategy on Albania's digital agenda for the period 2015 to 2020 and the National Plan for the Development of Broadband Infrastructures and Service, which provides for a governmental broadband strategy for 2013-2020 in order to develop broadband infrastructure and services across Albania and for the health, education, trade and governments services sectors to gain access to electronic services, were approved in 2015 and are currently being implemented. Law № 120 on "The deployment of high speed electronic communications networks and the provision of the right of way" was adopted in November 2016, and drafts of secondary legislation, which are expected to be adopted by the end of 2018, have been published for public consultation. A law on cybersecurity was adopted in February 2017.

In the field of audiovisual policy, in March 2017, following public consultation with various stakeholders, a strategic action plan was approved for 2017-2019. In June 2017, the public broadcaster, RTSH, approved a new internal structure reflecting the digital switchover process.

Development of advanced electronic communications infrastructure, together with fast and super-fast broadband is a main priority of Albania's digital agenda. In pursuance of this aim, the 800 MHz spectrum band now is available to mobile network operators. The deadline for submission of bids for the allocation of the 800 MHz spectrum band is the end of September 2018.

Environment

In recent years, Albania's objective to join the EU has driven its environmental policy, and a number of new policies and legislation have been developed focusing on the harmonisation of environmental policy across Albania, as well as the integration of environmental protection provisions in sector-specific policies. The NSDI was adopted in 2015. The NSDI, identifies challenges, visions, strategic priorities and goals, and sets out necessary policy measures to be taken. Recent environmental legislative and policy initiatives have been based on requirements defined by the approximation of EU environmental legislation. The Ministry of Tourism and Environment is also working to develop a cross sector strategy setting out environmental policy and strategic guidance in place.

The Ministry of Tourism and Environment is the principal authority responsible for the implementation of Albania's environmental commitments under national law and international treaties. The Directorate of Integration and Projects within the Ministry of Tourism and Environment has overall responsibility for international cooperation. In respect of international environmental cooperation, the Ministry of Tourism and Environment shares responsibility with the Ministry for Europe and Foreign Affairs, which has the authority to initiate the ratification of MEAs (international agreements, between three or more countries, on how to jointly address environmental problems of a cross-border nature), and is responsible for coordinating and monitoring measures for the implementation of the requirements of Albania's European commitments. The Environmental State Inspectorate has been established, which is responsible for controlling and enforcing environmental legislation in Albania. The Inspectorate sets penalties for administrative violations and has the authority to suspend or permanently close activities and operations, which do not comply with applicable environmental legislation.

Wages

The following table sets forth details regarding recent wage trends for the years indicated.

Wage Trends by Sector

	As at 31 December					As at 31 March	
	2013	**2014**	**2015**	**2016**	**2017**	**2017**	**2018**
			(ALL)				
Average monthly wage per employee[(1)]	N/A	N/A	47,891	47,511	48,943	47,143	49,145
Average public sector monthly wage[(1)]	52,150	53,025	54,000	54,488	59,813	56,500	59,728
Official minimum wage in public sector	22,000	22,000	22,000	22,000	24,000	22,000	24,000
Average monthly wage and salary by economic activity[(2)]	36,993	37,323	38,148	37,341	N/A	N/A	N/A
Mining and quarrying	*84,919*	*91,646*	*70,134*	*66,478*	*N/A*	*N/A*	*N/A*
Manufacturing	*28,919*	*27,989*	*27,974*	*28,737*	*N/A*	*N/A*	*N/A*
Electricity, gas, water supply, waste management	*37,667*	*42,642*	*39,944*	*44,975*	*N/A*	*N/A*	*N/A*
Construction	*35,190*	*38,447*	*36,700*	*35,533*	*N/A*	*N/A*	*N/A*
Transport and information and communication	*53,592*	*56,036*	*64,386*	*62,340*	*N/A*	*N/A*	*N/A*
Trade	*31,773*	*29,922*	*34,680*	*33,649*	*N/A*	*N/A*	*N/A*
Accommodation and food services	*21,090*	*23,254*	*23,659*	*20,702*	*N/A*	*N/A*	*N/A*
Services	*41,321*	*39,922*	*42,537*	*42,437*	*N/A*	*N/A*	*N/A*

Source: INSTAT

Notes:

(1) Average monthly wage per employee includes data for public sector and private sector employees. The average public sector monthly wage per employee, for 2013 to 2017, is the quarterly average calculated by INSTAT using payroll data obtained from the Official Statistics National Programme. The Official Statistics National Programme is the document that regulates the production of official statistics by the National Statistics System, in line with the statistical principles set out in Articles 4 and 4(1) of the Statistics Law, in compliance with the European Statistics Code of Practice. Since 2018, the average public sector monthly wage per employee in public sector data is the quarterly average calculated by INSTAT using payroll data obtained from the General Tax Directorate.

(2) Data is derived from INSTAT's Regional Structural Business Statistics, 2016, which is an annual survey that contains data in respect of all non-agricultural businesses broken down by economic activities and size of the businesses.

The highest average monthly wages and salary by economic activity for 2016 were in the mining and quarrying sector (ALL 66,478), and the lowest average monthly wages and salary were in the accommodation and food services sector (ALL 33,649).

In 2017, the official minimum wage in the public sector increased by 9.1% to ALL 24,000, as compared to ALL 22,000 in 2016, while the average public sector monthly wage increased by 9.8% to ALL 59,813 in 2017, as compared to ALL 54,488 in 2016. The average monthly wage per employee (including the public and private sectors) increased by 3.0% to ALL 48,943, as compared to ALL 47,511 in 2016. For the three months ended 31 March 2018, the average public sector monthly wage increased by 5.7% to ALL 59,728 from ALL 56,500 for the corresponding period in 2017, while the official minimum wage in the public sector remained unchanged in the three months ended 31 March 2018. The average monthly wage per employee (including the public and private sectors) increased from ALL 47,143 in the three months ended 31 March 2017 to ALL 49,145 for the corresponding period in 2017.

Employment

The table below sets forth information on Albania's labour force and employment and unemployment levels as at the dates indicated.

Labour Force and Employment / Unemployment Levels(1)

	As at 31 December				As at 31 March
	2014	**2015**	**2016**	**2017**	**2018**
Labour force *(thousands)*	1,225	1,280	1,327	1,340	1,342
Labour force activity rate (15-64 years) *(%)*	61.5	64.2	66.2	66.8	68.0
Employment rate (15-64 years) *(%)*	50.5	52.9	55.9	57.4	59.2
Employment by main sectors *(%)*					
Agriculture	*44.0*	*42.5*	*41.6*	*39.7*	*N/A*
Industry	*10.3*	*10.9*	*11.4*	*11.7*	*N/A*
Construction	*3.5*	*3.7*	*3.6*	*3.7*	*N/A*
Services	*42.3*	*43.0*	*43.5*	*44.9*	*N/A*
Unemployed *(thousands)*	227.4	230.7	191.5	184.6	173.8
Unemployment rate *(%)*	18.0	17.7	14.5	13.6	13.0

Source: INSTAT, except for employment data for the agricultural sector, which is based on household surveys.

Notes:

(1) Certain figures in this table have been revised and may differ from previously published data.

(2) Interim figures for 2018 are unavailable.

The unemployment rate decreased from 14.5% in 2016 to 13.6% in 2017, as the labour force increased by approximately 13,000 in 2017. At the same time, the labour force activity rate and employment rate have also increased from 66.2% and 55.9%, respectively, in 2016 to 66.8% and 57.4% in 2017. Since 2015, the services sector has been the largest source of employment in Albania, representing 43.5% of total employment in 2016 and 44.9% in 2017, followed by the agricultural sector, representing 41.6% of employment in 2016 and 39.7% in 2017. As at 31 March 2018, the unemployment rate was 13.0% and the total labour force was 1.3 million. The percentage of the labour force aged 15 to 29 who were out of the workforce decreased from 29.2% in 2016 to 26.3% 2017 and 24.5% in March 2018.

In 2015, Law № 80/2015 dated 22 July 2015 was passed, which sets out the main legal framework for the regulation of higher education. This law provides, *inter alia*, that the employability of students will be considered as a parameter for the ranking of universities, as well as an indicator for the assessment of performance in relation to funding of Albanian higher education institutions.

Since 2016, the Government has begun implementing measures aimed at reforming vocational training and education. The Government has initiated the restructuring stipulated in the revised law on vocational education and training and is the process of implementing amendments to the labour code which was approved in 1995 (the "**Labour Code**"). The amendments to the Labour Code, which were approved by the Assembly in 2016, include: (i) permitting temporary employment of foreign employees in Albania; (ii) introducing flexible working; (iii) establishing an agency for temporary work; and (iv) extending parental leave to male employees. In 2016 the "Law on Craftsmanship in the Republic of Albania" was introduced, which regulates apprenticeships. In February 2017 a revised vocational training and education law was adopted, clarifying the roles of state and non-state actors in the provision of vocational training and education.

Pensions and Social Insurance

Pension Reform

The pension system in Albania provides benefits to almost 621,000 citizens that belong to specific categories, such as: the elderly, the disabled and family (death) pensions. The system relies on a pay-as-you-go scheme pursuant to which benefits are paid directly from current workers' contributions and taxes.

During 2014, the Government commenced reforms of the pension system, which entered into force on 1 January 2015. The reform aimed to increase the number of contributors in the mid-term and long-term, reduce the high level of redistribution, improve the scheme's financial sustainability in the long-term by creating incentives for the payment of contributions for longer periods, provide for the payment of contributions based on real contributory wages, provide for the continuation of employment beyond retirement ages, simplify the method of calculation of benefits and increase the transparency of the system. In particular, the pensions law includes the following measures:

- A gradual increase of the retirement age from 2015 until 2056. The women's retirement age is scheduled to increase by two months a year to reach 63 by 2032, and the men's retirement age is scheduled to increase by one month a year, with both genders to reach 67 years by 2056.

- Improvement of the pension formula in rural areas through the merger of the current two schemes into a single national scheme. In 2017, the number of pensions subject to the previous regimes decreased by 90%.

- Reinforcement of the contributory principle by changing the pension-calculating formula.

- Removal of the ceiling used for the calculation of the maximum pension and indexing of the maximum contributory wage with average wage growth.

- Increase of the contribution period for the purpose of entitlements to the full base pension.

- Establishment of a social pension, to be funded by the state budget, for all individuals over 70 years of age, resident in Albania during the five years prior to their retirement, who do not qualify for a compulsory pension scheme.

- Imposition of conditions leading to reduced costs of state supplementary pensions for political officials, professors, military personnel and other state workers.

- Establishment of occupational pension schemes that aim to guarantee incomes for individuals who retire earlier than the official retirement age.

- Freezing of current pensions, which are not subject to recalculation, except for inflation indexing.

- Improvement of the performance of private pension funds.

- Removal of the previous special interest privilege (acknowledgement of unpaid university period as insurance period) for women with a university degree after 2032.

- Introduction of de-motivating elements regarding early retirement and encouraging postponed retirement.

Since the introduction of the pensions law and other reforms, there has been an improvement in a variety of pension system indicators, including the coverage ratio of the pension system. Social insurance system revenues increased from ALL 51,390 million in 2013 to ALL 73,556 million in 2017, reflecting an increase of 43.1%. These revenues accounted for 4.6% of GDP in 2017, as compared to 3.8% of GDP in 2013. Contributors to the social insurance system increased from 191,000 persons in 2013 to 752,000 persons in 2017 (an increase of 293.7%). Total transfers from the pension fund to private budgets were ALL 93,624 million in 2013, or approximately 7.1% of GDP, as compared to ALL 116,937 million in 2017, or approximately 7.5% of GDP, reflecting an increase of 24.9%. Revenues from social contributions were ALL 51,064 million in 2013, or approximately 3.8% of GDP, as compared to ALL 73,999 million in 2017, or approximately 4.8% of GDP. As a result of increased social contributions, pensions financing from the budget has decreased from 3.3% of GDP in 2013 to 2.7% of GDP in 2017. Social insurance system revenues are expected to continue to increase (by 7% in 2018), while Government spending on benefit and compensation schemes is expected to increase by approximately 6.6%.

The Government's reform programme aims to continue to reduce the impact of the pensions system on public finances.

Social Protection and State Aid

Important steps are expected to be taken with regard to improving the financial management system of Albania's social protection scheme, which provides direct cash transfers to the poor and disabled. In particular, the Social Assistance Modernisation Project was drafted and came into effect in October 2012 with the assistance of the World Bank and has as its core goal the sustainability of Albania's social protection programme. The reforms, which are being implemented nationwide following a two year pilot scheme across three regions, have digitalised the process from application to assignment and introduced a unified scoring formula, reducing the risk of abuse or human mistakes with the aim of ensuring that only eligible persons benefit from cash transfers.

In recent years, the Government has introduced new legislation focusing on social care. The law on social care services entered into force in November 2016, and the law on the rights and the protection of the child entered into force in February 2017. The 2017-2020 National Agenda for Children's Rights was adopted in April 2017, promoting stronger governance in the protection of such rights.

Spending on disability benefits has risen in recent years due, in part, to weak controls and instances of fraud. The Government is working with the World Bank on a medium-term project to reform disability benefits and improving the equity and efficiency of cash-based social assistance.

Currently, the contribution rate to the social protection scheme for employed people is 24.5% of the gross wages (partly contributed by employers and subject to a maximum level of ALL 105,850), while for the self-employed, the rate is 23.4%. The contribution rate for employed people includes contributions in respect of compulsory social insurance (*i.e.*, sickness benefits, maternity benefits, accident-at-work benefits, old-age, sickness and veterans pension benefits and unemployment insurance). The contribution rate for self-employed people includes maternity and pension benefits. Since January 2015, the maximum contribution level has been indexed to increases to the minimum wage. In addition, under Albania's compulsory health care insurance scheme, 3.4% of gross wages is contributed for employed people (1.7% of gross wages by each of the employee and the employer) and self-employed people contribute 3.4% of their twice monthly minimum gross wages for healthcare services. See "*Public Finances—Descriptions of Principal Budgetary Components—Tax Revenue*".

Healthcare

The healthcare system in Albania is in a relatively nascent stage of development, and key health system performance indicators in Albania are mixed. While health outcomes are relatively strong by regional standards, the sector suffers from inefficiencies and inequities.

In 2018, the number of hospitals in Albania was 2.0 per 100,000 population and, on average, there were 307.4 standard hospital beds, approximately 17.2 acute hospital beds and 21.9 psychiatric beds per 100,000 population. The range of facilities in hospitals in Albania varies depending on whether the hospitals are located in urban or rural areas. In recent years new healthcare facilities have been constructed outside of Tirana to try to expand and improve healthcare in Albania.

The following table sets forth details of the healthcare infrastructure in Albania in 2018:

Health Infrastructure

Indicator	Amount
Hospitals (*per 100,000 population*)	2.0
Hospital beds (*per 100,000 population*)	307.4
Acute care hospital beds (*per 100,000 population*)	17.2
Psychiatric beds (*per 100,000 population*)	21.9
Primary health care units (*per 100,000 population*)	14.3
Computed tomography units (*per million population*)	8.3
Radiotherapy units (*per million population*)	1.4
Mammography units (*per million females aged 50-69 years*)	74.5

Source: Ministry of Health and Social Protection

In February 2015, the World Bank's Board of Executive Directors approved €32.1 million in IBRD financing for a Health System Improvement Project. The total project cost is €36.1 million, with the remainder to be co-financed by the Government. The project is aimed at improving the efficiency of care in selected hospitals in Albania, improving the management of information in the health system and increasing financial access to healthcare services. Health sector stakeholders are also expected to benefit from capacity-building, with 700 staff in public health institutions expected to benefit from training and capacity-building activities.

In May 2017, the 2016-2020 national health strategy was adopted, which seeks to achieve universal healthcare coverage.

Since January 2018, the Government has been implementing a state economic aid scheme across the country (following completion of a pilot scheme in Tirana, Durres and Elbasan), which offers support to families and individuals and subsidies to promote education and healthcare for families with school-age children.

Privatisation

Albania carried out a major privatisation programme as part of its structural reforms towards the development of a market economy. Most privatisations took place during the 1990s, and the aggregate privatisation proceeds for the period from 1992 to 2014 exceeded U.S.$979 million.

Privatisations in Albania began in the second half of 1991 with the creation of the National Privatisation Agency. Law № 7512 of 10 August 1991 "On sanctioning and protecting private property, free initiative, independent private activities and privatisation" recognised private property generally and the concept of privatisation of state enterprises in particular. Pursuant to this law, from 1991 to 1992, more than 17,000 small service and trade businesses, as well as 2,000 tracks, fishing boats, agricultural machineries and other assets, were privatised through direct selling or management buyouts.

The privatisation process developed in steps, starting with the privatisation of small businesses, particularly service providers, followed by the privatisation of small and medium-sized state-owned enterprises, defined as those with values of less than U.S.$150,000 and U.S.$500,000, respectively, and the implementation of a programme of "voucher privatisation" or "mass privatisation" for 97 joint stock state companies. The remainder of privatisations of small and medium enterprises took place through employee buy-outs, with many companies being liquidated during this process.

In 1998, the Government enacted Law № 8306 of 14 March 1998 as part of a strategy to privatise major companies operating in strategic sectors, including the telecommunications, postal services, mining and energy and oil and gas sectors. Limited domestic capital, however, made privatisation of large enterprises difficult, and slower than initially planned.

In 1999, Albania privatised its first mobile phone network, through a U.S.$85.6 million sale to Telenor and Greece's Cosmote. In 2001, it awarded the second mobile phone licence to Vodafone. Other important privatisations include the privatisation of the concession of TIA, the concession of the Port of Durres, the privatisation of 85% of the shares of Albanian Refining and Marketing Oil and the privatisation of 76% of the shares of the fixed line telecommunications company, AlbTelecom.

As a result of the foregoing, the vast majority of economic activity in Albania is conducted by the private sector. With privatisation largely complete, the Government has identified energy sector reforms as a priority.

In 2007, the Government decided to privatise the distribution arm of the state-owned power company KESH in order to reduce losses and improve service quality. As a first step, the distribution arm was unbundled from KESH and incorporated as a separate power distribution system operator, OHSEE (formerly, OSSH), in June 2007. In 2009, the Government sold a 76% stake in OHSEE to the Czech power group, CEZ, for €102 million. In late 2014, however, the Republic resumed ownership of the company. On 23 September 2015, the Assembly approved Law № 102 "On Natural Gas Sector" requiring the unbundling of production activity from the activities of natural gas transmission and distribution. In July 2016, the Council of Ministers approved the establishment of Albgaz S.A. as a combined operator for the transmission and distribution of natural gas. The Government is also in the process of restructuring OHSEE to separate electricity supply and distribution services.

In 2013, the Government privatised 100% of the shares of HPP Bistrica 1 and Bistrica 2 sha for an aggregate of €109.5 million. In 2014, the privatisation policy for small and medium non-strategic sectors with 100% state capital was revised, with companies with poor economic and financial performance to targeted for liquidation and other companies for merger or sale. In 2015, the Government privatised 27 assets and 46.0% of the Government's shares of Buka Ltd. for an aggregate of €6.1 million.

In January 2016, a new law on strategic investments entered into force, with the aim of facilitating large investments. In 2016, the Government privatised 14 assets for an aggregate of ALL 110.1 million. In March 2016, 100% of the shares of the insurance company, Insig, were sold to Eurosig for €15.3 million.

In 2017, the Government privatised 31 assets and 30.0% of the Government's shares of Euroteorema Peqin Ltd. for an aggregate of ALL 145.0 million. The sale of assets was carried out through public auction procedures and the former owners of the land were given pre-emption rights to purchase the assets. In March 2017, the Minister of Economic Development, Tourism, Trade and Entrepreneurship approved an action plan for the privatisation or liquidation of state enterprises in non-strategic sectors for the period 2017-2020. This strategy identified five companies for privatisation or liquidation in 2017 and four companies in each of 2018, 2019 and 2020.

During the six months ended 30 June 2018, the Government privatised ten assets for an aggregate of ALL 97.3 million, of which four of these assets were purchased by former owners of land using their pre-emption rights. The Minister of Finance and Economy approved the action plan for the privatisation of state assets for the period 2016-2020, as amended for the period 2018-2020 on 21 March 2018. In June 2018 the liquidation of a 100% state-owned company, Prodhim Veshja Ushtarake JSC, was completed in accordance with this action plan.

The following table sets out information on privatisation revenues received by Albania and as a percentage of GDP in the years indicated.

Privatisation Revenues

	For the year ended 31 December					
	2012	**2013**	**2014**	**2015**	**2016**	**2017**
Privatisation revenues *(ALL millions)*	1,221	16,703	35	877	2,805	418.0
Privatisation revenues *(% of GDP)*	0.09	1.24	0.00	0.06	0.19	0.03

Source: Ministry of Finance and Economy

The state budget does not provide for assumed privatisation revenues.

Public Private Partnerships

In 2015, the Government announced its intention to encourage the use of PPPs. In February 2017, Prime Minister Rama launched a €1 billion PPP programme, focusing on PPPs in the transport and education sectors. Work has begun on five projects, of which four are in the transport sector and one is in the education sector. Under the €1 billion PPP programme, the Government intends to make funds available to private partners to be used to cover construction and operation costs over an eight- to 13-year period. The PPP projects are not treated as public debt but are instead accounted for by the private partner as "off balance sheet" items, in compliance with the European System of Accounts (ESA 95) rules. The Public Procurement Agency is the central public procurement entity mandated to monitor the application of public procurement rules, including providing information, support and guidance to contracting authorities.

In April 2017, amendments to the 2014 Public Procurement Law were introduced aimed at strengthening the independence of the Public Procurement Commission, which carries out administrative reviews of public tenders. According to these amendments, members of the Public Procurement Commission are appointed by the Assembly (rather than the Council of Ministers) following a competitive selection procedure. The current Head of the Public Procurement Commission was appointed for a five-year term in February 2018. The other members of the Public Procurement Commission were appointed by the Assembly in 2018.

In February 2018, the Government signed a contract with Gjoka Konstruksion for a construction and maintenance project in respect of the remaining part of the highway linking Tirana to the Dibra region and Macedonia, which is estimated to cost approximately U.S.$250 million (plus VAT) and take a period of 13 years to complete. See "*The Economy—Principal Sectors of the Economy—Transport and Infrastructure—Roads*".

In May 2018, following criticism by the IMF and the World Bank of the Government's practice of accepting unsolicited proposals in relating to PPP agreements, the Government announced that it would stop accepting such proposals from the private sector, aiming to improve accountability on financial and legal issues. Related revisions to the PPP framework are expected to be submitted to the Assembly and approved by the end of 2018.

The Government's fiscal risk unit has worked with the World Bank to develop and assess associated direct and indirect fiscal costs and risk stemming from PPPs. In addition, new public investment management procedures were drafted and approved in March 2018, including guidelines and criteria to be used in the technical appraisal of large projects.

The organic budget law stipulates that annual PPP payments cannot exceed 5% of tax revenues.

Informal Economy

Albania has a substantial informal economy, which is significant in terms of the production of both goods and services and as a source of employment. According to figures published by INSTAT and academic reports, Albania's informal economy represented approximately 28% of GDP in 2016. See "*Risk Factors—Risks relating to Albania—A significant portion of the Albanian economy is not recorded.*"

The Government is pursuing a number of measures to reduce the informal economy, including inspections conducted by the Inspectorate of Labour and Social Services to identify undeclared workers, particularly in the media and tourism sector. In 2017, the inspectorate identified 607 undeclared workers in registered businesses and 54 unregistered businesses. The Inspectorate of Labour and Social Services is also working with the International Labour Organisation to commence inspections in the construction sector.

BALANCE OF PAYMENTS AND FOREIGN TRADE

Balance of Payments

The following table sets forth data on Albania's balance of payments for the periods indicated.

Balance of Payments(1)(2)

	For the year ended 31 December					For the three months ended 31 March	
	2013	**2014**	**2015**	**2016**	**2017**	**2017**	**2018**
				(€ millions)			
Current Account	**(890.6)**	**(1,076.3)**	**(883.6)**	**(811.7)**	**(802.6)**	**(148.3)**	**(164.6)**
Goods and Services	**(1,736.3)**	**(1,892.4)**	**(1,774.3)**	**(1,806.2)**	**(1,742.3)**	**(311.7)**	**(354.8)**
Credit	2,782.7	2,813.1	2,799.1	3,109.4	3,653.2	773.4	840.3
Debit	4,519.0	4,705.4	4,573.4	4,915.6	5,395.5	1,085.1	1,195.1
Goods	**(1,962.6)**	**(2,215.6)**	**(2,298.9)**	**(2,602.8)**	**(2,824.0)**	**(587.2)**	**(614.5)**
Credit	1,067.3	931.7	771.1	713.7	797.1	181.3	218.7
Debit	3,029.9	3,147.3	3,070.1	3,316.5	3,621.2	768.6	933.2
Services	**226.2**	**323.2**	**524.7**	**796.6**	**1,081.8**	**275.5**	**259.7**
Credit	1,715.4	1,881.4	2,028.0	2,395.7	2,856.1	592.1	621.6
Debit	1,489.1	1,558.2	1,503.3	1,599.1	1,774.3	316.6	361.9
Manufacturing Services on Physical Inputs owned by others	*148.6*	*199.6*	*240.7*	*295.2*	*333.3*	*95.5*	*106.9*
Maintenance and Repair Services	*0.0*	*0.0*	*0.0*	*3.3*	*5.4*	*3.1*	*1.4*
Transport	*25.0*	*(25.2)*	*(14.6)*	*(28.8)*	*39.4*	*17.1*	*13.2*
Travel	*(6.0)*	*171.3*	*236.1*	*388.9*	*446.1*	*75.6*	*77.6*
Construction	*9.1*	*5.2*	*2.2*	*5.4*	*6.6*	*2.5*	*1.0*
Insurance and Pension Services	*(9.5)*	*(4.7)*	*(21.3)*	*(21.7)*	*(28.6)*	*(4.6)*	*(2.6)*
Financial Services	*(4.0)*	*(7.1)*	*(21.0)*	*(3.9)*	*(5.7)*	*(1.9)*	*(0.9)*
Charges for the use of Intellectual Property	*(16.1)*	*(15.9)*	*(20.4)*	*(18.5)*	*(1.8)*	*(0.1)*	*(3.5)*
Telecommunications, Computer, and Information Services	*70.2*	*73.7*	*46.7*	*54.3*	*21.8*	*18.8*	*5.0*
Other Business Services	*23.0*	*20.5*	*60.7*	*130.5*	*321.5*	*67.2*	*78.1*
Personal, Cultural, and Recreational Services	*(2.9)*	*(13.6)*	*(7.5)*	*(3.9)*	*4.0*	*1.4*	*2.1*
Government Goods and Services	*(14.5)*	*(1.4)*	*17.8*	*(17.8)*	*(59.7)*	*2.3*	*(18.4)*
Primary Income	**165.8**	**(91.5)**	**122.2**	**174.1**	**92.0**	**(5.6)**	**(11.2)**
Credit	279.2	336.5	375.7	408.7	405.4	79.6	75.8
Debit	113.3	245.0	253.5	234.6	313.4	85.2	87.0
Secondary Income	**679.9**	**724.6**	**768.4**	**820.5**	**847.7**	**169.0**	**201.4**
Credit	810.4	851.7	921.5	961.2	961.8	198.3	223.0
Debit	130.5	127.1	153.1	140.7	114.1	29.3	21.6
Capital Account	**47.8**	**86.7**	**125.7**	**66.2**	**122.3**	**23.8**	**18.3**
Financial Account	**(806.5)**	**(934.3)**	**(615.7)**	**(616.6)**	**(905.9)**	**(287.2)**	**(288.2)**
Assets	465.0	249.9	717.0	461.6	263.8	2.0	(10.4)
Liabilities	1,271.5	1,184.2	1,332.7	1,078.2	1,169.7	289.2	188.1
Direct Investments	**(923.2)**	**(811.5)**	**(818.4)**	**(936.4)**	**(969.8)**	**(197.7)**	**(290.7)**
Assets	21.6	57.7	71.9	6.1	(61.5)	(22.3)	(7.2)
Liabilities	944.8	869.2	890.3	942.5	908.3	175.4	283.5
Portfolio Investments	**115.4**	**122.3**	**(230.2)**	**225.2**	**(99.9)**	**(137.5)**	**2.8**
Assets	127.5	130.3	(180.7)	206.4	(99.4)	(150.0)	5.3
Liabilities	12.1	8.0	49.5	(18.8)	0.5	(12.5)	2.5
Financial Derivatives (other than reserves) and Employee Stock Options	**1.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Assets	(1.3)	0.0	0.0	0.0	0.0	0.0	0.0
Liabilities	(2.3)	0.0	0.0	0.0	0.0	0.0	0.0
Other Investments	**(104.0)**	**(342.3)**	**(176.9)**	**46.9**	**(21.3**	**39.4**	**142.1**
Assets	212.9	(35.3)	216.1	201.4	239.5	165.7	154.7
Liabilities	316.9	307.0	393.0	154.5	260.8	126.3	12.6
Reserve Assets	**104.4**	**97.2**	**609.5**	**47.7**	**185.4**	**8.6**	**(142.4)**
Monetary gold	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SDRs	15.1	6.9	78.1	(27.6)	4.6	41.4	(12.8)
Reserve Position in the IMF	0.0	0.0	0.0	24.9	31.3	0.0	0.0
Other Reserve Assets	89.2	90.3	531.4	50.3	149.4	(32.8)	(129.6)
Net Errors and Omissions	**36.3**	**55.1**	**142.2**	**128.9**	**(225.6)**	**(162.7)**	**(142)**

Source: The Bank of Albania

Notes:

(1) INSTAT compiles statistics for foreign trade, while the Bank of Albania compiles and releases overall balance of payment statistics (which include foreign trade data received from INSTAT). The balance of payments statistics set out in the above table have been compiled in compliance with international standards laid down in the sixth edition of the IMF's *Balance of Payments and International Investment Position Manual* ("***BPM6***").

(2) Certain figures in this table have been revised and differ from previously published figures.

Current Account

Albania's current account deficit between 2007 and 2017 averaged 10.8% of nominal GDP. A substantial part of Albania's current account deficit is attributable to high domestic demand for imports and fluctuations in income from exports. Fluctuations in secondary income are primarily driven by remittances, while fluctuations in primary income are primarily driven by employer compensation inflows and investment outflows.

Albania's current account deficit decreased to €802.6 million in 2017 from €811.7 million in 2016, reflecting a decrease of €9.1 million, or 1.1%. This decrease was primarily due to increases in services income (which increased from €796.6 million in 2016 to €1.1 billion in 2017, reflecting an increase of €285.2 million, or 35.8%) and, to a lesser extent, secondary income. These increases were only partially offset by an increase in the merchandise trade deficit (reflecting trade of goods but excluding trade of services) (from €2,602.8 million in 2016 to €2,824.0 million in 2017, reflecting an increase of €221.2 million, or 8.5%) and a decrease in primary income (from €174.1 million in 2016 to €92.0 million in 2017, reflecting a decrease of €82.1 million, or 47.2%).

In the three months ended 31 March 2018, the current account deficit increased to €164.6 million from €148.3 million in the corresponding period in 2017, reflecting an increase in the deficit of €16.3 million, or 11.0%. This increase was primarily due to an increase in the merchandise trade deficit (from €587.2 million in the three months ended 31 March 2017 to €614.5 million in the corresponding period in 2018, reflecting an increase in the deficit of €27.3 million, or 4.6%) and decreases in services income and primary income. This was partially offset by an increase in secondary income (from €160.0 in the three months ended 31 March 2017 to €201.4 million in the corresponding period in 2018, reflecting an increase of €32.4 million, or 19.2%), which was primarily due to increases in remittances and official transfers.

In 2017, Albania's current account deficit accounted for 6.9% of GDP, as compared to 7.6% in 2016. In the three months ended 31 March 2018, the current account deficit to GDP ratio decreased to 5.8%.

Net Exports and Trade Balance

In 2017, Albania's trade deficit (including trade of goods and services) was €1,742.3 million, as compared to €1,806.2 million in 2016, reflecting a decrease in the deficit of €63.9 million, or 3.5%. Exports of goods and services were €3,653.2 million in 2017, as compared to €3,109.4 million in 2016, reflecting an increase of €543.8 million, or 17.5%. This increase was primarily due to increased services exports. Imports of goods and services were €5,395.5 million in 2017, as compared to €4,915.6 million in 2016, reflecting an increase of €479.9 million, or 9.8%. This increase was due to increases in both goods and services imports. See "*—Foreign Trade*".

Exports grew at a faster pace than imports, resulting in the decrease in the overall trade deficit in 2017. In 2017, the trade deficit represented 15.0% of nominal GDP, a decrease from 16.8% of nominal GDP in 2016.

In the three months ended 31 March 2018, this trend was reversed, with imports growing at a faster rate than exports. Exports of goods and services were €840.3 million in the three months ended 31 March 2018, as compared to €773.4 million in the corresponding period in 2017, reflecting an increase of €66.9 million, or 8.7%. This increase was primarily due to increased exports of crude oil, textiles and construction materials. Imports of goods and services were €1,195.0 million in the three months ended 31 March 2018, as compared to €1,085.1 million in the corresponding period in 2017, reflecting an increase of €109.9 million, or 10.1%. This increase was primarily due to increased imports of electricity and processed fuel goods, as well as increases in tourism and government services imports. As a result of the foregoing, in the three months ended 31 March 2018, the trade deficit increased by €43.1 million, or 13.8%, from €311.7 million in the three months ended 31 March 2017 to €354.8 million in the corresponding period in 2018. In the three months ended 31 March 2018, the trade deficit represented 12.6% of nominal GDP, an increase from 12.0% of nominal GDP in the corresponding period in 2017.

Services Account

The services account improved during 2017. The net balance of the services accounts registered a surplus of €1,081.8 million in 2017, as compared to a surplus of €796.6 million in 2016, reflecting an increase of €285.2 million, or 35.8%. This increase was primarily due to a 145.6% increase in net exports of other business services, which was, in turn, primarily due to exports of services associated with call-centre activities. Net travel services receipts also increased by 14.7% in 2017, primarily due to continued investment in the tourism sector.

In the three months ended 31 March 2018, the services account registered a surplus of €259.7 million, as compared to a surplus of €275.5 million in the corresponding period in 2017, reflecting a decrease of €15.8 million, or 5.7%. This decrease was primarily due to faster growth of services imports than exports, with services imports growing by 14.3%

and service exports growing by 0.5%. The increase in services imports in the three months ended 31 March 2018 was primarily due to increases in travel services outflows and imports of Government services.

Primary Income

Albania's primary income account registered a net surplus in each full year since 2013 and is primarily affected by the performance of net compensation of employees and investment outflows. In 2017, the primary income account registered a surplus of €92.0 million, as compared to a surplus of €174.1 million in 2016, reflecting a decrease of €82.1 million, or 47.2%. This decrease was primarily due to increased investment outflows, in particular, outflows relating to direct investment.

In 2017, net compensation of employees increased by €2.6 million, as compared to 2016, while the net investment income deficit increased by €84.9 million due to a 33.5% annual increase in investment income outflows (33.5% on annual terms), reflecting the profitability of direct investment and the impact of FDI projects on the performance of a number of economic sectors, including, in particular, the mining sector.

In the three months ended 31 March 2018, the primary income account registered a deficit of €11.2 million, as compared to a deficit of €5.6 million in the corresponding period in 2017, reflecting an increase in the deficit of €5.6 million, or 100.0%. The increased deficit was primarily due to a decrease in investment income inflows.

Secondary Income

The secondary income account registered a surplus of €847.7 million in 2017, as compared to €820.5 million in 2016, reflecting an increase of €27.2 million, or 3.3%. Net flows in the secondary income account were estimated at 7.3% of nominal GDP in 2017. The increase in the secondary income surplus in 2017 was primarily due to an increase in net remittances by 3.4% to €635.7 million as compared to €614.5 million in 2016. The ratio of net remittances to nominal GDP was 5.5% in 2017, as compared to 5.7% in 2016. See "—*Remittances*". In addition, net official transfers increased by €21.9 million in 2017, which also contributed to the increased secondary income surplus.

In the three months ended 31 March 2018, the secondary income account registered a surplus of €201.4 million, as compared to €169.0 million in the corresponding period in 2017, reflecting an increase of €32.4 million, or 19.2%. Net flows in the secondary income account were estimated at 7.1% of nominal GDP in the three months ended 31 March 2018. The increase in the secondary income surplus in the three months ended 31 March 2018 was primarily due to increases in official transfers and remittances. The ratio of net remittances to nominal GDP was 5.2% in each of the three months ended 31 March 2018 and 2017. See "—*Remittances*".

The secondary income account surplus financed 48.7% of the trade deficit in 2017 and 56.8% of the trade deficit in the three months ended 31 March 2018.

Capital and Financial Accounts

Capital Account

The capital account registered a surplus of €122.3 million in 2017, as compared to €66.2 million in 2016, reflecting an increase of €56.1 million, or 84.8%. Net flows of the capital account represented 1.1% of nominal GDP in 2017. The increase in the capital account surplus in 2017 was primarily due to private sector capital transfers.

In the three months ended 31 March 2018, the capital account registered a surplus of €18.3 million, as compared to €23.8 million in the corresponding period in 2017, reflecting a decrease of €5.5 million, or 23.1%. This decrease was primarily due to decreases in net inflows from public and private transfers.

The combination of net non-financial transactions in the current account and capital account renders the net position of a domestic economy as a net lender, if in surplus, and a net borrower, if in deficit, versus non-resident economies. Conceptually, this result is equal to the net balance of the financial account, which reflects the manner in which the net lending position or net borrowing position by non-residents is being financed.

In 2017, Albania's economy held a net borrowing position of €680.3 million, as compared to a net borrowing position of €765.5 million in 2016, reflecting a decrease of €85.2 million, or 11.1%. In the three months ended 31 March 2018, Albania held a net borrowing position of €146.3 million, as compared to a net borrowing position of €124.5 million in the corresponding period in 2017, reflecting an increase of €21.8 million, or 17.5%.

Financial Account

The financial account registered net liabilities of €905.9 million in 2017, as compared to €616.6 million in 2016, reflecting an increase in net liabilities of €289.3 million, or 46.9%. Net liabilities of the financial account represented 7.8% of nominal GDP in 2017. The increase in financial account net liabilities in 2017 was primarily due to increased liabilities relating to other investments. Other investments primarily include assets and liabilities in the form of currency, deposits and direct loans. The increase in other investment liabilities in 2017 was primarily due to higher government foreign borrowing. Domestic assets invested in non-resident economies decreased by 42.9% and residents' financial liabilities to non-residents increased by 8.5% in 2017, as compared to 2016.

Financial account net liabilities represented 112.1% of the current account deficit registered in 2017.

In the three months ended 31 March 2018, the financial account registered net liabilities of €288.2 million, as compared to €287.2 million in the corresponding period in 2017, reflecting an increase in net liabilities of €1.0 million, or 0.4%.

Foreign Direct Investment

The financial account received €969.8 million (representing 8.3% of nominal GDP) from net FDI in 2017, as compared to €936.4 million in 2016, reflecting an increase of €33.4 million, or 3.6%. Net FDI in 2015 was €818.4 million. Net FDI grew at a faster pace in 2016 than 2017, registering annual growth of 14.4%, as compared to 2015 (as compared to annual growth of 3.6% in 2017).

The faster rate of FDI growth in 2016 was primarily due to large energy sector projects, including the TAP, being expanded and requiring intensive funding. Such projects did not require the same levels of funding in 2017. See "—*Major FDI Projects*". In addition, there are no current projects underway that are planned to require the same level of funding in future periods. Accordingly, there can be no assurance that future FDI levels will reach the levels observed in 2016. See "*Risk Factors—Risks relating to Albania—Albania's economy is vulnerable to external shocks and fluctuations in global and regional economic conditions, which could have an adverse effect on Albania's economic growth and its ability to service its public debt*".

In the three months ended 31 March 2018, net FDI was €209.7 million, as compared to €197.7 million in the corresponding period in 2017, reflecting an increase of €93.0 million, or 47.0%. This increase was primarily due to FDI for energy sector projects, in particular the TAP. See "*—Major FDI Projects*" and "*The Albanian Economy—Principal Sectors of the Economy—Energy—Energy Sector Reform—Infrastructure Development*". Net FDI inflows fluctuate throughout the year and the results for the three months ended 31 March 2018 are not necessarily indicative of the expected results for the 2018 full year.

Direct investments represent an important foreign currency inflow in financing the trade and current account deficits. The net FDI to current account deficit ratio was 120.8% in 2017, an increase from 115.4% in 2016. In the three months ended 31 March 2018, the net FDI to current account deficit ratio was 176.6%, an increase from 133.3% in the corresponding period in 2017.

The Government is introducing a number of reforms to attract FDI, including amending property rights and related regulations, as well as measures to enhance contract enforcement. See "*The Albanian Economy—Economic Programme and Priorities*".

The following table sets forth details of Albania's FDI for the periods indicated.

Net Foreign Direct Investment(1)

	For the year ended 31 December					For the three months ended 31 March	
	2013	2014	2015	2016	2017	2017	2018
	(€ millions)						
Net FDI	923.2	811.5	818.4	936.4	969.8	197.7	290.7
Net FDI/GDP *(%)*	9.6	8.1	8.0	8.7	8.3	7.6	10.3
Net FDI/Current account deficit *(%)*	103.7	75.4	92.6	115.4	120.8	133.3	176.6
Net FDI/Balance of trade *(%)*	52.9	42.9	44.5	47.2	41.8	63.4	81.9

Source: INSTAT and The Bank of Albania

Note:
(1) Certain figures in this table have been revised and differ from previously published figures.

The following tables set forth details of Albania's FDI stock, by country, as at the dates indicated.

Foreign Direct Investment Stock by Country(1)

	As at 31 December				As at 31 March
	2014	2015	2016	2017	2018
	(%)				
Greece	25.8	24.2	21.7	19.5	18.8
Canada	15.9	13.9	13.0	13.5	13.0
Switzerland	1.7	2.4	9.7	13.6	14.7
Netherlands	11.1	14.1	12.6	12.9	13.8
Italy	11.5	11.0	10.6	10.0	9.5
Turkey	9.1	8.3	9.0	7.9	7.8
Austria	7.9	7.8	6.3	6.4	6.4
Cyprus	2.6	2.8	2.5	2.4	2.1
Germany	2.8	2.8	2.2	1.8	1.8
France	1.6	1.5	1.6	2.8	3.0
International Organisations	2.5	2.6	2.1	1.5	1.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: The Bank of Albania

Note:
(1) Certain figures in this table have been revised and differ from previously published figures.

Foreign Direct Investment Stock by Country

	As at 31 December				As at 31 March
	2014	2015	2016	2017	2018
	(€ millions)				
Greece	1,179.6	1,204.8	1,232.6	1,278.7	1,294.5
Canada	725.3	691.5	739.5	882.9	895.8
Switzerland	79.4	120.6	550.1	888.3	1,009.7
Netherlands	506.0	702.8	718.0	845.7	948.3
Italy	523.7	547.5	604.4	651.5	656.0
Turkey	413.1	411.0	512.9	520.4	534.5
Austria	358.3	386.9	359.6	419.0	441.3
Cyprus	116.7	140.3	142.1	154.0	146.6
Germany	129.5	137.2	122.7	115.9	126.4
France	71.4	75.5	88.1	182.8	209.2
International Organisations	116.0	128.2	117.1	96.4	110.6
Total	**4,563.5**	**4,981.7**	**5,677.3**	**6,546.8**	**6,888.1**

Source: The Bank of Albania

As at each of 31 December 2014, 2015, 2016 and 2017, as well as at 31 March 2018, FDI stock from Greece accounted for the largest proportion of Albania's total FDI stock, accounting for 25.8%, 24.2%, 21.7%, 19.5% and 18.8%, respectively. The decrease in the proportion of FDI from Greece since 2014 is primarily due to increased FDI from other countries as the overall FDI stock from Greece has grown slowly. As at 31 December 2014, FDI stock from Greece was €1,179.6 million as compared to €1,294.5 million as at 31 March 2018. Net FDI inflows from Switzerland and, to a lesser extent, the Netherlands, have increased since 2013, primarily due to FDI from these countries for projects in the energy and mining sectors.

The following table sets forth details of Albania's FDI stock, by industry, as at the dates indicated.

Foreign Direct Investment Stock by Industry(1)

	As at 31 December				As at 31 March
	2014	2015	2016	2017	2018
	(%)				
Information and communications	25.8	24.4	21.4	18.3	17.4
Financial and insurance	16.9	17.2	16.5	15.5	15.0
Energy, gas and air supply	8.8	12.6	19.5	23.1	25.1
Mining	14.1	12.7	11.5	13.4	13.3
Manufacturing	12.2	11.5	10.7	9.5	9.2
Professional, scientific and technical activities	5.7	4.9	4.7	4.9	5.0
Wholesale, retail, car and motorbike repair activities	4.2	4.7	4.7	4.1	4.0
Real estate	2.8	3.0	3.1	3.4	3.6
Transport and accommodation services	3.3	3.2	2.9	2.5	1.8
Construction	2.6	1.7	1.7	1.7	1.6
Administrative and support services	0.6	0.6	0.6	0.9	1.3
International organization related activities	1.1	1.9	1.5	1.2	1.1
Art, entertainment and recreation activities	0.7	0.5	0.5	0.7	0.7
Health and social work activities	0.8	0.7	0.6	0.5	0.5
Education	0.3	0.3	0.3	0.3	0.3
Agriculture, forestry and fishing	0.0	0.1	0.1	0.1	0.1
Water supply	0.1	0.1	0.0	0.0	0.0
Other services	0.0	(0.2)	(0.2)	0.0	0.0
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Source: The Bank of Albania

Note:

(1) Certain figures in this table have been revised and differ from previously published figures.

As at 31 December 2017, FDI stock to the energy, gas and air supply sector accounted for the largest portion of Albania's total FDI stock, accounting for 23.1%. In 2017, FDI stock to the energy, gas and air supply sector increased to €1,515 million as at 31 December 2017 from €1,106 million as at 31 December 2016, reflecting an increase of €408.8 million, or 36.9%. This increase was primarily due to increased FDI flows in connection with large energy sector projects. Such projects have contributed to the growth in the proportion of energy, gas and air supply FDI stock, as a percentage of total FDI stock, from 8.8% in 2014, to 12.6% in 2015, 19.5% in 2016 and 23.1% in 2017. See "—*Major FDI Projects*".

Other significant contributors to total FDI include the information and communications sector, which accounted for 21.4% and 18.3% of total FDI stock as at 31 December 2016 and 2017, respectively, the financial and insurance sector, which accounted for 16.5% and 15.5% of total FDI stock as at 31 December 2016 and 2017, respectively, and the mining sector, which accounted for 11.5% and 13.4% of total FDI stock as at 31 December 2016 and 2017, respectively.

The proportion of FDI in the mining sector increased in 2017 primarily due to exploratory drilling works being conducted by Shell in the Shpiragu mountain complex.

As at 31 March 2018, the energy, gas and air supply sector accounted for the largest portion of Albania's total FDI stock, accounting for 25.7%, followed by the information and communications sector (17.4%), the financial and insurance sector (15.0%) and the mining sector (13.3%).

Major FDI Projects

The following projects have contributed to the growth of net FDI inflows since 2013:

- *The Trans-Adriatic Pipeline Project:* The TAP project has a total financing commitment of €1.5 billion between 2015-2019. The pipeline is due to become operational in 2020. As at 31 March 2018, investment in the TAP was €832.0 million, of which €461.6 has been allocated to construction (with the remainder allocated to other costs, including costs of imported materials, property acquisitions, management, insurance and contingency costs). See "*The Albanian Economy—Principal sectors of the Economy—Energy—Energy Sector Reform—Infrastructure Development*".

- *Devoll Project*: This project involves the construction of three major hydro power plants on the Devoll River at a cost of approximately €500.0 million and is being undertaken in conjunction with Norwegian company Statkraft. This project is in the final phase of its development and is expected to expand Albania's electricity generation capacities. See "*The Albanian Economy—Principal Sectors of the Economy—Energy—Energy Sector Reform—Infrastructure Development*".

Portfolio Investments and Net Other Investments

Net portfolio investments registered a deficit of €100.0 million in 2017, as compared to a surplus of €225.2 million in 2016. The deficit in 2017 was primarily due to a decrease in the flow of assets associated with debt securities, which was, in turn, primarily related to the adoption by deposit-taking institutions of new investment strategies favouring increased investment in term deposits rather than debt securities and loans. An increase in portfolio investment liabilities, which was, in turn, also related to the debt securities market, and the change in the investment strategies of certain deposit-taking institutions, also contributed to the deficit in 2017.

In the three months ended 31 March 2018, net portfolio investments registered a surplus of €2.8 million, as compared to a deficit of €137.5 million in the correspondence period in 2017. The surplus in the three months ended 31 March 2018 was primarily due to an increase in debt securities assets.

The other investment account registered a deficit of €21.3 million in 2017, as compared to a surplus of €46.9 million in 2016. The deficit in 2017 was primarily due to an increase in general Government loans, which was partially offset by an increase in other investment currency and deposit assets.

In the three months ended 31 March 2018, the other investment account registered a surplus of €142.1 million, as compared to a surplus of €39.4 million in the corresponding period in 2017, reflecting an increase of €102.7 million, or 260.7%. This increase was primarily due to increased other investment assets, which was, in turn, a result of increases in currency and deposit assets. This increase was partially offset by a €12.6 million increase in other investment liabilities, which was, in turn, due to increased loans from deposit-taking corporations.

Foreign exchange reserve assets increased by €185.4 million in 2017 to €2.8 billion as at 31 December 2017, as compared to €3.0 billion as at 31 December 2016. In the six months ended 30 June 2018, foreign exchange reserve assets decreased by €38.0 million.

As at 30 June 2018, Albania's foreign exchange reserve assets were sufficient to cover 6.4 months of imports of goods and services and 158% of Albania's short-term external debt. See "*Monetary and Financial System—Foreign Reserve Assets*".

Net errors and omissions

Due to problems that may be faced in the sources of information and during the compilation of the external sector statistics, the balance of payment figures are subject to certain discrepancies. These are aggregated and accounted for under the balancing item of net errors and omissions. In 2017, net errors and omissions registered an outflow of €225.6 million (1.9% of nominal GDP), as compared to an inflow of €128.9 million in 2016. In the three months ended 31 March 2018, net errors and omissions registered an outflow of €142.0 million, as compared to an outflow of €162.7 million in the corresponding period in 2017, reflecting a decrease of €20.7 million, or 12.7%.

Foreign Trade

Albania has liberalised its foreign trade since 1990 and follows guidelines set by the EU and the WTO. Albania has been a member of the WTO since 2000 and applies WTO rules on import licencing. See "*The Republic of Albania—International Relations*". As a result of this liberalisation and an on-going process of harmonisation of Albanian customs rules with the EU system, imports and exports of commodities are not generally subject to special authorisation requirements. Exceptions apply to quotas or control requirements imposed through different bilateral or multilateral agreements signed by Albania.

An important achievement towards EU integration, the SAA (the Stabilisation and Association Agreement) between Albania and the EU was ratified in April 2009, and includes a provision for the establishment of a free trade area between Albania and the EU within ten years. The SAA supersedes the previous Interim Agreement, which is now incorporated as an integral part of the SAA. See "*The Republic of Albania—International Relations—European Union*."

On 19 December 2006, all of Albania's bilateral trade agreements with countries in the region were transformed into a multilateral agreement, the CEFTA (the Central European Free Trade Agreement), which includes Albania, Macedonia, Montenegro, Kosovo, Moldova, Serbia and Bosnia and Herzegovina. See "*The Republic of Albania—International Relations—Regional Relationships"*.

In December 2009, Albania signed a free trade agreement with the European Free Trade Association ("**EFTA**"). The EFTA member states are: Iceland, Liechtenstein, Norway and Switzerland.

Albania has also concluded a free trade agreement with Turkey, which entered into force in May 2008. In addition, Albania follows the General System of Preferences, the U.S. trade programme providing for preferential U.S. duty-free treatment on certain products.

Foreign trade of goods and services in Albania represented 78.1% of nominal GDP in 2017, reflecting the small size and open nature of Albania's economy.

The following table sets forth information on Albania's imports and exports by sector, for the periods indicated.

Imports and Exports by Sector[(1)]

	For the year ended 31 December					For the six months ended 30 June	
	2013	2014	2015	2016	2017	2017	2018
				(€ millions)			
Imports							
Food, Beverages and Tobacco	666.0	671.5	693.5	730.9	796.2	376.6	397.8
Minerals, Fuels and Electrical Energy	660.5	644.6	430.7	363.0	492.6	186.7	238.0
Chemical and Plastic Products	486.5	521.1	536.2	582.6	647.8	321.4	334.6
Leather and Related Products	81.2	102.3	113.9	126.5	141.6	71.3	77.6
Wood and Paper Products	144.7	163.8	155.6	170.1	176.8	81.5	90.6
Textiles and Shoes	385.8	450.1	496.2	582.4	649.7	316.7	339.4
Construction Materials and Metals	451.4	505.9	483.4	553.2	571.5	286.4	288.6
Machinery and Parts	702.1	755.3	840.1	953.9	1,000.0	460.0	525.5
Others	109.2	131.6	149.3	155.7	194.8	87.5	91.9
Total	**3,687.4**	**3,946.3**	**3,898.9**	**4,218.3**	**4,670.9**	**2,188.1**	**2,384.0**
Exports							
Food, Beverages and Tobacco	104.4	119.7	150.9	184.7	224.5	101.1	121.2
Minerals, Oil and Electrical Energy	708.6	613.5	461.1	339.3	321.0	169.3	237.4
Chemical and Plastic Products	20.6	24.2	28.3	31.7	35.3	16.9	21.5
Leather and Related Products	22.8	22.0	20.7	18.9	22.1	11.2	11.7
Wood and Paper Products	57.0	65.6	59.7	56.5	62.0	27.4	33.0
Textiles and Shoes	494.4	613.9	644.8	776.1	875.3	428.5	487.2
Construction Materials and Metals	257.9	265.1	252.3	232.3	326.7	156.0	208.7
Machinery and Parts	58.8	66.0	77.1	82.1	112.5	51.7	64.9
Others	31.5	37.2	44.8	51.7	56.3	26.3	32.1
Total	**1,756.1**	**1,827.2**	**1,739.7**	**1,773.3**	**2,035.6**	**988.3**	**1,217.6**

Source: INSTAT and The Bank of Albania

Note:
(1) Certain figures in this table have been revised and differ from previously published figures.

Since 2013, the value of total imports has increased from €3,687.4 million to €4,670.9 million in 2017, an increase of 26.7%. Import growth since 2013 has been primarily driven by growth in the textile and shoes sector and the food, beverages and tobacco sector. Growth of imports in the textile and shoes sector since 2013 has been primarily driven by increasing local demand for goods in these industries. Growth of imports in the foods, beverages and tobacco sector since 2013 has been primarily driven by general growth in household consumption.

Imports of machinery and parts have accounted for the largest proportion of imports in each year since 2013, accounting for 19.0% of total imports in 2013, 19.1% in 2014, 21.0% in 2015, 22.6% in 2016 and 21.4% in 2017. The large proportion of machinery and parts imports are primarily due to the fact that Albania does not produce high technology goods domestically and, accordingly, imports such goods. The extracting, manufacturing, telecommunications and transport industries are the main importers of machinery and parts. Machinery and parts imports also include imports of capital goods for final consumption, including cars, motors, computers and electrical appliances, which are not produced domestically in Albania.

In 2017, the total value of imports increased to €4,670.9 million, as compared to €4,218.3 million in 2016, reflecting an increase of €452.6 million, or 10.7%. This increase was primarily due to a 35.7% increase in minerals, fuels and electrical energy imports, primarily electricity imports, which were made to offset the decrease in domestic supply as a result of unfavourable weather conditions in 2017. See "*The Albanian Economy—Principal Sectors of the Economy Energy*".

Textile and shoe imports also increased in 2017, primarily due to increased imports of materials for local producers of textiles and shoes. An increase in food, construction materials, machinery and chemical products imports in 2017 were also made to satisfy local demand for consumption, intermediary goods and investment.

In the six months ended 30 June 2018, the total value of imports increased to €2,384.0 million, as compared to €2,188.1 million in the corresponding period in 2017, reflecting an increase of €195.9 million, or 9.0%. This increase was primarily due to increased processed fuel imports, as well as imports of food, machinery and textiles.

The comparatively high dependency on imports of certain production sectors and levels of consumer demand, coupled with falling import prices (in certain cases as a result of domestic exchange rate appreciation) has stimulated high import growth, particularly since 2015. In particular, Albania's domestic electricity and power production is dependent on its hydropower activities (which accounted for 98.0% of domestic electricity generation in 2017). Accordingly, Albania's energy sector is affected by droughts and other adverse climatic events, which impact Albania's hydropower activities, and increase Albania's need for, and dependence on, electricity imports. As a result of the drought in 2017, electricity from electricity imports accounted for approximately 45% of available electricity in 2017, as compared to approximately 26% in 2016. See *"Risk Factors—Risks relating to Albania—Albania has a variable climate and may be subject to energy, food and water security risks*" and "*Risk Factors—Risks relating to Albania—Fluctuations in prices of imported goods may have a negative impact on the Albanian economy*".

Since 2013, the value of total exports has increased from €1,756.1 million to €2,035.6 million in 2017, an increase of 15.9%. Export growth since 2013 has been primarily driven by growth in the textile and shoes sector, and, to a lesser extent, by the construction materials and metals sector and the foods, beverages and tobacco sector. Growth of exports in the textile and shoes sector since 2013 has been primarily driven by strong demand, primarily from Italy. Growth of exports in the construction materials and metals sector since 2013 has been primarily driven by exports of such materials to neighbouring countries, including Kosovo and Macedonia. Growth of exports in the foods, beverages and tobacco sector since 2013 has been primarily driven by large exports, primarily of vegetables, to neighbouring countries. Since 2013, exports from the minerals, oil and electrical energy sector have decreased, primarily due to price conditions in the international markets for unprocessed fuels and minerals.

In 2017, the total value of exports increased to €2,035.6 million, as compared to €1,773.3 million in 2016, reflecting an increase of €262.3 million, or 14.8%. This increase was primarily due to the positive contribution of textile and shoes (which, in turn, is in line with the increase in imports of materials for local producers of textiles and shoes in 2017), construction materials and metals and food exports. The increase in construction materials and metals exports was primarily due to exports of these commodities to new partners in neighbouring countries in 2017. The increase in food exports in 2017 was primarily due to higher primary food shipments (mainly vegetables) to neighbouring countries.

In the six months ended 30 June 2018, the total value of exports increased to €1,217.6 million, as compared to €988.3 million in the corresponding period in 2017, reflecting an increase of €229.3 million, or 23.2%. This increase was primarily due to increased electricity exports as a result of favourable rainfall conditions during the period. Increased exports of textiles, construction materials, food and machinery also contributed to the increase in total exports in the six months ended 30 June 2018.

Exports and imports of processed fuels have fluctuated in recent years. In 2017, Albania was able to export processed fuels for the first time. A local refinery was provided with unprocessed oil from the domestic market and the processed fuel output was sold internationally, as well as in the domestic market. This resulted in significant processed fuel export growth in the six months ended 30 June 2017, as well as a decrease in fuel imports. Following the beginning of export operations, however, the local refinery experienced increasing difficulties, in particular following strikes by employees of the refinery in respect of unpaid wages, which impacted the refinery's productivity, and no longer processes and exports this fuel. The refinery has since been transferred to new ownership. Accordingly, in the six months ended 30 June 2018, there was a decrease in processed fuel exports and an increase in processed fuel imports. Increases in electricity and unprocessed fuel exports in the six months ended 30 June 2018 have, however, offset the impact of ceasing to export processed fuel, with minerals, oil and electrical energy exports increasing by 40.2% in the six months ended 30 June 2018, as compared to the corresponding period in 2017.

Focus of Trade

The following tables set forth Albania's exports and imports of goods, by origin or destination, as a percentage of total exports and imports and in value, for the periods indicated.

Exports and Imports of Goods by Origin or Destination[(1)]

	For the year ended 31 December					For the six months ended 30 June	
	2013	**2014**	**2015**	**2016**	**2017**	**2017**	**2018**
				(%)			
Exports							
Italy	46.3	52.2	51.3	54.6	53.5	54.7	48.6
Kosovo	6.6	7.3	8.5	6.8	7.7	7.4	7.0
Spain	10.2	6.6	5.3	3.3	5.5	4.9	8.0
Germany	3.9	2.9	3.2	3.4	4.0	4.1	4.5
Greece	3.1	3.5	3.9	4.6	4.2	4.4	4.4
China	4.7	3.4	2.7	3.0	3.1	3.4	2.2
Serbia	0.9	0.6	1.3	1.9	1.7	2.0	3.3
Macedonia	1.8	2.1	2.6	2.6	3.1	2.9	2.5
Malta	6.5	6.0	4.3	3.5	0.2	0.2	0.2
Turkey	3.7	3.8	2.8	1.1	0.8	0.7	0.6
Others	12.3	11.6	14.2	15.2	16.2	15.4	18.9
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
Imports							
Italy	33.2	29.7	30.2	29.3	28.6	29.5	29.0
China	6.3	6.4	6.3	6.8	7.3	6.9	8.3
Greece	9.0	9.4	7.9	7.9	8.0	8.1	8.3
Turkey	6.4	7.1	8.0	7.9	8.1	8.2	8.1
Germany	5.8	6.0	6.6	9.3	8.1	8.6	8.0
Serbia	2.9	4.3	3.9	3.2	4.0	3.7	2.9
United States	2.4	2.4	1.6	1.9	1.5	1.6	1.5
Spain	1.6	1.7	1.6	2.2	2.1	2.1	2.1
Russia	1.9	2.1	2.2	1.9	1.9	1.6	1.7
France	2.7	1.9	2.2	2.0	1.7	1.7	1.9
Others	27.5	28.1	27.2	25.7	28.1	27.2	28.7
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source: INSTAT

Note:

(1) Certain figures in this table have been revised and differ from previously published figures.

Exports and Imports of Goods by Origin or Destination

	For the year ended 31 December					For the six months ended 30 June	
	2013	2014	2015	2016	2017	2017	2018
				(€ millions)			
Exports							
Italy	813.1	953.8	892.5	968.2	1089.0	540.6	591.8
Kosovo	115.9	133.4	147.9	120.6	156.7	73.1	85.2
Spain	179.1	120.6	92.2	58.5	112.0	48.4	97.4
Germany	68.5	53.0	55.7	60.3	81.4	40.5	54.8
Greece	54.4	64.0	67.8	81.6	85.5	43.5	53.6
China	82.5	62.1	47.0	53.2	63.1	33.6	26.8
Serbia	15.8	11.0	22.6	33.7	34.6	19.8	40.2
Macedonia	31.6	38.4	45.2	46.1	63.1	28.7	30.4
Malta	114.1	109.6	74.8	62.1	4.1	2.0	2.4
Turkey	65.0	69.4	48.7	19.5	16.3	6.9	7.3
Others	216.0	212.0	247.0	269.5	329.8	152.2	230.1
Total	**1,756.1**	**1,827.2**	**1,739.7**	**1,773.3**	**2,035.6**	**988.3**	**1,217.6**
Imports							
Italy	1,224.2	1,172.1	1,177.5	1,236.0	1,335.9	645.5	691.4
China	232.3	252.6	245.6	286.8	341.0	151.0	197.9
Greece	331.9	371.0	308.0	333.2	373.7	177.2	197.9
Turkey	236.0	280.2	311.9	333.2	378.3	179.4	193.1
Germany	213.9	236.8	257.3	392.3	378.3	188.2	190.7
Serbia	106.9	169.7	152.1	135.0	186.8	81.0	69.1
United States	88.5	94.7	62.4	80.1	70.1	35.0	35.8
Spain	59.0	67.1	62.4	92.8	98.1	46.0	50.1
Russia	70.1	82.9	85.8	80.1	88.7	35.0	40.5
France	99.6	75.0	85.8	84.4	79.4	37.2	45.3
Others	1,014.0	1,108.9	1,060.5	1,084.1	1,312.5	595.2	684.2
Total	**3,687.4**	**3,946.3**	**3,898.9**	**4,218.3**	**4,670.9**	**2,188.1**	**2,384.0**

Source: INSTAT

In 2017, Italy was the largest importer of Albanian goods, purchasing 53.5% of total exports in 2017, as compared to 54.6% in 2016. Exports to Italy are primarily comprised of textiles and footwear exports (which accounted for 68% of total exports to Italy in 2017), construction materials and metals exports (which accounted for 11.0% of total exports to Italy in 2017), minerals and fuels exports (which accounted for 5.6% of total exports to Italy in 2017), and foods exports (which accounted for 5.8% of total exports to Italy in 2017). Albania's second largest trading partner for exports in 2017 was Kosovo, which accounted for 7.7% of total exports in 2017, as compared to 6.8% in 2016. Exports to Kosovo are primarily comprised of construction materials and metals exports (which accounted for 45.6% of total exports to Kosovo in 2017), minerals and fuels exports (which accounted for 23.3% of total exports to Kosovo in 2017) and foods exports (which accounted for 13.7% of total exports to Kosovo in 2017).

Exports to Spain and Malta have decreased from 10.2% and 6.5%, respectively, of total exports in 2013 to 5.5% and 0.2%, respectively, in 2017. These decreases are primarily due to a reduction in fuel exports to these countries. In the six months ended 30 June 2018, Spain accounted for 8.0% of total exports, as a result of increased exports of unprocessed fuel.

Exports to China have decreased in recent years, from 4.7% of total exports in 2013 to 3.4% in 2017, primarily as a result of failing international prices, in particular for exports of chrome ore.

Exports to Turkey have also decreased from 3.7% of total exports in 2013 to 0.7% of total exports in 2017. This decrease is primarily due to a decrease in metal exports. In particular, in 2016, a Turkish company operating in the iron-casting sector, filed for bankruptcy, which resulted in a significant reduction of metal exports to Turkey. Despite the reduction of metal exports to Turkey, metal exports have continued to contribute to overall export growth, with metal exports being re-oriented to neighbouring countries and, in particular, Kosovo and Macedonia.

In the six months ended 30 June 2018, Italy remained the largest importer of Albanian goods, purchasing 48.6% of total exports, as compared to 54.7% in the corresponding period in 2017.

Italy was also the source of the largest portion of Albanian imports in 2017, accounting for 28.6% of total imports, as compared to 29.3% in 2016. Imports from Italy are primarily comprised of textiles and footwear imports (which accounted for 24.2% of total imports from Italy in 2017), machinery imports (which accounted for 19.1% of total imports from Italy in 2017), construction materials imports (which accounted for 11.1% of total imports from Italy in

2017), chemicals imports (which accounted for 10.8% of total imports from Italy in 2017), foods imports (which accounted for 10.5% of total imports from Italy in 2017) and minerals and fuels imports (which accounted for 10.5% of total imports from Italy in 2017). Albania's second largest trading partners for imports in 2017 were Turkey and Germany, each accounting for 8.1% of total imports, as compared to 7.9% and 9.3%, respectively, in 2016. While there have been no major changes in the source of imports since 2013, the increase in the proportion of imports from Germany (from 5.8% of total imports in 2013 to 8.1% in 2017) is primarily due to an increase in imports of construction materials and machinery from Germany for major FDI projects, including the TAP. See "*—Capital and Financial Account—Financial Account—Major FDI Projects*".

In the six months ended 30 June 2018, Italy remained the largest exporter of goods to Albania, accounting for 29.0% of total imports, as compared to 29.5% in the corresponding period in 2017.

Remittances

Historically, remittances have contributed significantly to funding Albania's current account deficit. Between 2010 and 2013, however, the level of remittances declined, due, in part, to economic hardship in Italy and Greece, where a large portion of Albanian migrants are located, as well as the effects of the global financial crisis.

Despite continuing economic difficulties in certain European countries, including Italy and Greece, remittances have increased year-on-year since 2013. Average remittance growth between 2014 and 2017 was 4.0%. The repatriation of income by certain Albanians living abroad (in particular, in Greece) in response to concerns relating to the regional and international financial markets has contributed to the increase in remittance inflows since 2013.

The following table sets forth details of Albania's remittances for the periods indicated.

Remittances

	For the year ended 31 December					For the three months ended 31 March	
	2013	2014	2015	2016	2017	2017	2018
Net remittances *(€ millions)*	543.8	591.9	597.1	614.5	635.7	135.1	147.2
Remittances/Trade deficit (G+S) *(%)*	31.3	31.3	33.7	34.0	36.5	43.3	41.5

Source: The Bank of Albania

In 2017, net remittances increased by 3.4% to €635.7 million (representing 5.5% of GDP), as compared to €614.5 million in 2016 (representing 5.7% of GDP).

In the three months ended 31 March 2018, net remittances were €147.2 million (representing 5.2% of GDP), an increase of 8.9% as compared to the corresponding period in 2017.

PUBLIC DEBT

Public debt is comprised of central Government debt and Government-guaranteed debt, both external and domestic, as well as local government domestic debt. It is the sum of (i) all financial liabilities created through borrowing by the central Government and local government (municipalities) and (ii) Government-guaranteed debt. External debt includes debt to external multilateral, external bilateral and external private creditors. Domestic debt includes debt owed to domestic creditors.

The following table sets out Albania's public debt broken down into domestic debt and external debt, both in millions of Lek and as a percentage of GDP, as at the dates indicated.

Total General Government Debt(1)

	As at 31 December					As at 30 June
	2013	2014	2015	2016	2017	2018
			(ALL millions)			
Securities	500,868	538,641	520,963	530,834	546,939	564,643
Loans(2)	19,918	26,033	30,439	30,286	30,117	15,390
Total domestic debt	**520,786**	**564,673**	**551,374**	**561,120**	**577,056**	**580,033**
Securities	42,060	42,042	61,776	60,854	59,828	56,669
Loans	321,846	370,387	429,112	443,736	450,459	438,951
Total external debt(3)	**363,906**	**412,429**	**490,898**	**504,589**	**510,286**	**495,620**
Total central Government debt(4)	**884,692**	**977,102**	**1,042,272**	**1,065,710**	**1,087,342**	**1,075,653**
Loans	391	855	940	857	753	696
Total local government debt	**391**	**855**	**940**	**857**	**753**	**696**
Total public debt	**885,083**	**977,957**	**1,043,212**	**1,066,567**	**1,088,095**	**1,076,348**
GDP	1,350,053	1,395,305	1,427,799	1,472,791	1,555,202	1,649,952(5)
			(% of GDP)			
Public debt	**65.6**	**70.1**	**73.1**	**72.4**	**70.0**	**65.2**
Central Government debt	**65.5**	**70.0**	**73.0**	**72.4**	**69.9**	**65.2**
Domestic debt	38.6	40.5	38.6	38.1	37.1	35.2
External debt(5)	27.0	29.6	34.4	34.3	32.8	30.0
Local government debt	**0.0**	**0.1**	**0.1**	**0.1**	**0.0**	**0.0**

Source: Ministry of Finance and Economy

Notes:

(1) Certain figures in this table have been revised and differ from previously published figures.
(2) Includes only domestic guarantees.
(3) Representing external debt presented in Lek terms. See "*—External Debt*" for details of external debt presented in Euro terms.
(4) Includes central Government and central Government guaranteed debt.
(5) Estimated data.

Public debt decreased to an estimated 65.2% of GDP as at 30 June 2018, as compared to 70.0% of GDP as at 31 December 2017 and 72.4% of GDP as at 31 December 2016. The decrease in public debt, as a percentage of GDP, from 31 December 2017 to 30 June 2018 was primarily due to a decrease in external debt, which was, in turn, primarily due to the appreciation of the Lek against a number of foreign currencies in which external debt is denominated. See "*Exchange Rates*". When presented in Euro terms, Albania's external debt increased to €3,936 million as at 30 June 2018, as compared to €3,838 million as at 31 December 2017 and €3,731 million as at 31 December 2016. See "—*External Debt*".

Debt Management Policy

The Ministry of Finance and Economy prepares the medium-term strategy for the evaluation and development of Albania's debt portfolio (the "**Debt Management Strategy**"). The Debt Management Strategy is updated on an annual basis in line with the annual budget law, the Government's wider macro-fiscal framework and the medium-term monetary policies implemented by the Bank of Albania. The most recently adopted Debt Management Strategy is the Medium-Term Debt Management Strategy 2018-2020.

The public debt to GDP ratio has decreased in recent years from 73.1% as at 31 December 2015 to 70.0% as at 31 December 2017. As at 30 June 2018, the public debt to GDP ratio was 65.2%, reflecting a decrease in external debt, which was, in turn, primarily due to the appreciation of the Lek against a number of foreign currencies in which external debt is denominated. The Debt Management Strategy aims to continue this downward trajectory and to: (i) efficiently manage central Government debt (including guaranteed debt); (ii) increase transparency regarding Government borrowing plans with domestic and foreign investors; and (iii) clarify and quantify public debt objectives in the short-to-medium term.

In 2016, Albania's Organic Budget Law was amended to introduce a requirement to target lower public debt each year (subject to certain exceptions) and for independent GDP estimates to be used in budget preparation. The amendments to the Organic Budget Law also require contingency funds to be maintained in order to manage potential risks arising from fluctuations in interest rates and foreign exchange rates. See "*Public Finances—Fiscal Policies and Budget Performance*". In line with the amendments to the Organic Budget Law and the Debt Management Strategy, the Government has stated an intention to reduce the debt to GDP ratio to below 60% by 2021. The Ministry of Finance and Economy has projected that the debt to GDP ratio at the end of 2018 will be 68.7% of GDP.

Albania has historically relied on domestic and foreign borrowing (primarily from multilateral financial institutions) as its main sources of funding. Domestic borrowing forms the main constituent of Government borrowing, with short-term securities primarily used to refinance existing securities and for liquidity management purposes, while long-term securities are used to cover the budget deficit. External commercial borrowing, including international bank debt, provides an important complementary source of funding for the Government. Multilateral and bilateral external borrowing are the main sources of finance for new and existing priority Government projects. See "*—Relationships with Multilateral Financial Institutions*". Albania has also accessed the international capital markets through two Eurobond issuances, in 2010 and 2015.

The majority of Albania's external debt is denominated in Euros. The portion of Albania's external debt denominated in Euros has remained relatively stable since 2013, accounting for 57.9% of external debt as at 31 December 2013 and 57.2% as at 30 June 2018. Maintaining a significant portion of Albania's external debt as Euro-denominated debt is part of the Debt Management Strategy, thereby enabling optimisation of debt costs (as external debt often provides financing sources with favourable terms) and a reduction of pressure on the domestic market. The orientation of external debt borrowing primarily towards Euro-denominated borrowings, where possible, is also in compliance with Albania's objective of joining the EU.

The Debt Management Strategy also aims to extend the overall maturity of the debt portfolio. As at 30 June 2018, the weighted average maturity of Albania's domestic debt was 805 days, as compared to 780 days as at 31 December 2017 and 753 days as at 31 December 2016. In line with this aim, on 24 September 2018, Albania launched the Tender Offer in respect of the 2020 Notes. See "*—External Debt*".

In each annual budget, the Assembly sets a net borrowing limit for the relevant year. The net borrowing limit for 2018 in the 2018 budget is ALL 20.9 billion, as compared to ALL 45.2 billion of actual borrowing in 2017 ALL 28.5 billion of actual borrowing in 2016 and ALL 50.4 billion of actual borrowing in 2015. The increase in actual borrowing in 2017, as compared to actual borrowing in 2016 and the budgeted net borrowing limit in 2018, is primarily due to liquidity flows and reflected the disbursement of tranches under concessional loans with the IMF and the World Bank in 2017. These funds were partially used to finance the 2017 fiscal deficit, with the remainder held as Government deposits to be used to finance the 2018 budget deficit. With the Assembly's approval, the Ministry of Finance and Economy may exceed the borrowing limit if the limit is breached due to currency exchange rate fluctuations. In addition, the Assembly may authorise the Government to exceed the borrowing limits in case of emergencies.

Domestic Debt

Domestic debt includes debt owed to domestic creditors. It is comprised of: (i) central Government securities issued to finance the budget deficit; and (ii) central Government guarantees issued to domestic creditors for loans extended to state-owned enterprises ("**SOEs**") (at present, limited to one energy sector company).

As at 30 June 2018, domestic debt was ALL 580.0 billion (representing 53.9% of total public debt), as compared to ALL 577.1 billion as at 31 December 2017 and ALL 561.1 billion as at 31 December 2016. The increase in domestic debt since 31 December 2016 is primarily due to an increased ability of the domestic market to support longer-term treasury bonds.

Treasury bills and bonds are issued through public auctions and purchased principally by banks in Albania. Treasury bills are short-term instruments, with maturities of up to one year (of which the Government currently offers instruments with maturities of three months, six months, nine months and 12 months), and treasury bonds are long-term instruments, with maturities of more than one year (of which the Government currently offers instruments with maturities of two years, three years, five years, seven years and ten years).

In recent years, the Ministry of Finance and Economy has undertaken several initiatives aimed at reducing the fragmentation of investor demand for Government securities and creating benchmark sizes for long-term securities issuances (including through decreasing the frequency of issuances and re-opening series of existing securities). Since 2017, the Government has been working with the World Bank to develop further measures aimed at diversifying and developing the investor base for domestic Government securities. As part of such efforts, in June 2018, the Ministry of Finance and Economy entered into an agreement with five "market-maker" banks to conduct a pilot project to test the preparedness of the Albanian market for further development of the primary market and establishment of a secondary market for Government securities, as well as to identify impediments and related solutions to the development of such markets. The pilot project, which is ongoing, includes the issuance of a five-year benchmark bond with subscription to be made through the market-maker banks.

The following table sets forth details of the instruments offered by the Ministry of Finance and Economy through auctions in the periods indicated.

Instruments Offered through Auctions(1)

	For the year ended 31 December					For the six months ended 30 June	
	2013	2014	2015	2016	2017	2017	2018
			(ALL millions)				
Offered by Ministry of Finance and Economy	465,433	482,166	445,860	365,657	339,996	200,439	185,699
Requested	615,535	514,356	498,600	440,296	422,549	271,534	228,791
Difference	150,102	32,190	52,740	74,640	82,553	71,095	43,092
Bid/Cover	1.32	1.07	1.12	1.20	1.24	1.35	1.23

Source: Ministry of Finance and Economy

Note:

(1) Certain figures in this table have been revised and differ from previously published figures.

As at 30 June 2018, 35.0% of Albania's domestic debt was comprised of short-term treasury bills, as compared to 35.7% as at 31 December 2017 and 39.4% as at 31 December 2016. Treasury bonds, as a percentage of total domestic debt, have been increasing year-on-year, from 48.9% as at 31 December 2013 to 63.2% as at 30 June 2018. Treasury bonds with maturities of more than five years are issued with both fixed and floating interest rates, with interest rates on floating rate bonds linked to the one-year treasury bill yield. Ten-year bonds were first issued in 2013, and their share of total domestic debt has increased from 1.7% of Albania's domestic debt as at 31 December 2013 to 11.3% as at 30 June 2018.

As at 30 June 2018, the weighted average maturity of Albania's domestic debt was 805 days, as compared to 780 days as at 31 December 2017 and 753 days as at 31 December 2016.

The following table sets forth a breakdown of Albania's domestic debt, by maturity, as at the dates indicated.

Domestic Debt

	As at 31 December					As at 30 June
	2013	2014	2015	2016	2017	2018
			(ALL millions)			
Central government debt	**500,868**	**538,641**	**520,935**	**530,834**	**546,939**	**564,643**
Short-term debt	245,782	260,599	223,824	209,409	195,047	197,829
Long-term debt	255,086	278,042	297,111	321,426	351,892	366,814
Central government guaranteed debt	**19,918**	**26,033**	**30,439**	**30,286**	**30,118**	**15,390**
Total domestic debt	**520,786**	**564,673**	**551,374**	**561,120**	**577,057**	**580,033**

Source: Ministry of Finance and Economy

The table below sets forth the composition of central Government domestic debt, by instrument, as at the dates indicated.

Central Government Domestic Debt by Instrument Type

	As at 31 December										As at 30 June	
	2013		2014		2015		2016		2017		2018	
	(ALL millions)	*(% of total)*	*(ALL millions)*	*(% of total)*	*(ALL millions)*	*(% of total)*	*(ALL millions)*	*(% of total)*	*(ALL millions)*	*(% of total)*	*(ALL millions)*	*(% of total)*
3M Bills	7,959	1.6	19,697	3.7	4,374	0.8	2,342	0.4	0	0.0	0	0.0
6M Bills	39,242	7.8	35,831	6.7	28,928	5.6	21,219	4.0	11,071	2.0	6,246	1.1
9M Bills	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0	0	0.0
12M Bills	198,581	39.6	205,071	38.1	190,522	36.6	185,847	35.0	183,975	33.6	191,583	33.9
Total short-term debt	**245,782**	**49.1**	**260,599**	**48.4**	**223,824**	**43.0**	**209,408**	**39.4**	**195,047**	**35.7**	**197,829**	**35.0**
2Y Bonds	81,731	16.3	85,358	15.8	80,983	15.5	83,674	15.8	95,474	17.5	99,709	17.7
3Y Bonds	32,655	6.5	34,278	6.4	36,677	7.0	28,920	5.4	24,673	4.5	22,823	4.0
5Y Bonds	93,910	18.7	93,760	17.4	90,851	17.4	98,428	18.5	103,120	18.9	102,681	18.2
7Y Bonds	38,517	7.7	43,544	8.1	54,927	10.5	63,232	11.9	71,669	13.1	78,037	13.8
10Y Bonds	8,274	1.7	21,102	3.9	33,673	6.5	47,173	8.9	56,956	10.4	63,564	11.3
Total long-term debt	**255,086**	50.9	**278,042**	51.6	**297,111**	57.0	**321,426**	60.6	**351,892**	64.3	**366,814**	65.0
Total central Government domestic debt	**500,868**	**100.0**	**538,641**	**100.0**	**520,935**	**100.0**	**530,834**	**100.0**	**546,939**	**100.0**	**564,643**	**100.0**

Source: Ministry of Finance and Economy

The following table sets forth the weighted average original yield (at issuance) of Lek-denominated Government securities as at the dates indicated.

Weighted Average Yield at Issuance of Lek-Denominated Government Securities

	As at 31 December					As at 30 June
	2013	2014	2015	2016	2017	2018
				(%)		
Treasury Bills	**5.21**	**3.36**	**3.19**	**1.61**	**2.28**	**2.38**
3 months	4.25	3.10	2.87	1.12	1.22	1.31
6 months	5.19	3.32	3.03	1.27	1.84	1.92
9 months	6.36	3.79	—	—	—	—
12 months	5.35	3.45	3.33	1.74	2.37	2.44
Bonds	**7.29**	**6.31**	**6.00**	**3.88**	**4.19**	**4.42**
2 years	6.35	4.89	4.82	2.24	2.89	3.03
3 years	7.59	5.77	5.72	3.75	2.70	3.61
5 years	7.81	6.62	6.49	4.89	5.18	5.45
7 years	8.23	7.76	7.52	4.90	5.32	5.82
10 years	9.25	9.26	8.96	7.03	6.79	6.98

Source: Ministry of Finance and Economy

External Debt

As at 30 June 2018, Albania's external debt, in Euro terms, was €3,936 million (representing 46.1% of total public debt), as compared €3,838 million (representing 46.9% of the total public debt) as at 31 December 2017 and €3,731 million (representing 47.3% of the total public debt) as at 31 December 2016. The increase in external debt since 31 December 2016 was primarily due to increased funding from multilateral creditors, which increased from €2,088.1 million (ALL 282.4 billion) as at 31 December 2016 to €2,381.3 million (ALL 299.9 million) as at 30 June 2018. See "*—Relationships with Multilateral Financial Institutions*". External debt due to bilateral creditors has decreased from €737.9 million (ALL 99.8 billion) as at 31 December 2016 to €725.1 million (ALL 91.3 billion) as at 30 June 2018.

When presented in Lek, Albania's external debt decreased from ALL 510.3 billion as at 31 December 2017 (representing 32.8% of total public debt) to ALL 495.6 billion as at 30 June 2018 (representing 30.0% of total public debt). This decrease was primarily due to the appreciation of the Lek against certain foreign currencies in which the external debt portfolio is denominated.

On 24 September 2018, Albania invited holders of the €450 million 5.75% Notes due 2020 issued by Albania in November 2015 (the 2020 Notes) to tender such Notes for purchase for cash at a price of 109.75% of the principal amount, together with accrued and unpaid interest to the settlement date for the Tender Offer, subject to certain terms and conditions and restrictions, as set out in a Tender Offer Memorandum dated 24 September 2018. The principal amount of 2020 Notes that will be accepted for purchase in connection with the Tender Offer shall not exceed €200 million. On 2 October 2018, Albania announced that, subject to its receipt of sufficient proceeds from the issue of the Notes to provide financing for the payment of amounts payable under the Tender Offer, it will accept for purchase €200 million in aggregate principal amount of 2020 Notes pursuant to the Tender Offer. Subject as described above, the Tender Offer is expected to be completed on or about the Issue Date. The Tender Offer is in line with the Government's aim to extend its public debt maturity profile. See "*—Debt Management Policy*".

External borrowings are used for project financing and budget support. Project financing covers projects in different economic sectors, such as transport, energy, water supply and health care. The proceeds of budget support loans are used to finance the budget deficit and are not linked to a specific project.

The majority of Albania's external debt, 57.2% as at 30 June 2018, is denominated in Euros. A substantial portion consists of loans from the International Development Association (the "**IDA**"), an agency of the World Bank and the IMF, which are denominated in SDRs. Overall, 24.5% of Albania's total external debt as at 30 June 2018 was denominated in SDRs. Most of the remaining external debt (11.6%) is denominated in U.S. Dollars.

The following table sets forth Albania's total external debt, by currency, as at the dates indicated.

Denomination of External Debt by Currency

	As at 31 December										**As at 30 June**	
	2013		**2014**		**2015**		**2016**		**2017**		**2018**	
	(€ millions)	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*	*(€ millions)*	*(%)*
ACU	70	2.7	73	2.5	75	2.1	72	1.9	64	1.7	62	1.6
AED	33	1.3	42	1.4	52	1.5	59	1.6	56	1.5	58	1.5
EUR........	1,495	57.6	1,680	57.1	2,128	59.5	2,124	56.9	2,172	56.6	2,251	57.2
JPY.........	32	1.2	46	1.6	58	1.6	74	2.0	78	2.0	82	2.1
KWD......	27	1.0	29	1.0	21	0.6	26	0.7	20	0.5	19	0.5
KRW......	20	0.8	22	0.7	28	0.8	20	0.5	19	0.5	18	0.5
SAR........	2	0.1	6	0.2	8	0.2	11	0.3	19	0.5	21	0.5
SDR........	664	25.6	758	25.8	883	24.7	998	26.7	968	25.2	966	24.5
USD........	252	9.7	287	9.8	321	9.0	348	9.3	442	11.5	457	11.6
Total.......	**2,596**	**100.0**	**2,943**	**100.0**	**3,576**	**100.0**	**3,731**	**100.0**	**3,838**	**100.0**	**3,936**	**100.0**

Source: Ministry of Finance and Economy

As at 30 June 2018, 49.5% of Albania's external debt was on concessional terms, including lower than market rates (from 0-3%) and long tenors (over 20 years on average), as it was obtained from international financial institutions for development support. Albania's rescheduled debt, which was originally incurred prior to 1992 by previous Communist governments and has since been rescheduled, is also entirely on concessional terms. The level of Albania's concessional external debt, however, has reduced as Albania's economy has developed. Since July 2010, the World Bank has classified Albania as an upper middle income country, reducing its ability to obtain concessionary funding from the World Bank and the IMF. This change, together with an increase in commercial foreign borrowing in recent years with a floating rate interest rate, has contributed to an increase in non-concessional floating rate debt, as a percentage of total external debt. Notwithstanding this general trend, the portion of Albania's external debt granted on concessional terms has increased since 2014, primarily reflecting disbursements under the EFF with the IMF. The final disbursement under the EFF was made in February 2017. See "*—Relationships with Multilateral Financial Institutions—International Monetary Fund*".

The following table sets forth Albania's total external debt, by creditor, as at the dates indicated.

External Debt by Creditor(1)

	As at 31 December					As at 30 June
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
	(ALL millions)					
Multilateral(2)	**204,083**	**249,163**	**268,006**	**282,374**	**299,498**	**299,881**
CEB	15,323	14,964	14,207	13,230	12,788	11,583
EBRD	18,655	19,720	18,453	15,695	12,641	25,391
EC	1,262	1,261	1,236	1,217	957	680
EIB	32,765	33,036	31,929	29,229	26,278	23,716
IBRD	6,820	31,393	33,418	37,127	66,068	65,761
IDA	88,721	93,723	94,976	89,567	78,131	73,126
IDB	29,910	35,376	39,893	43,628	46,316	45,713
IFAD	4,377	4,664	4,742	4,446	3,872	3,631
OPEC	6,251	7,166	7,682	7,332	5,819	5,402
IMF	—	7,861	21,473	40,903	46,629	44,877
Bilateral	**78,355**	**86,319**	**96,443**	**99,790**	**96,912**	**91,314**
Germany	23,112	25,015	29,683.23	31,574.54	30,235.21	27,470.97
Greece	1,638	1,602	1,535.20	287.92	249.66	220.65
Austria	4,583	6,247	7,713.21	8,074.69	7,684.60	7,078.90
Italy	30,901	31,079	32,384.63	32,228.37	31,685.01	30,017.57
Japan	4,524	6,449	8,025.80	9,967.88	10,330.06	10,366.15
China	189	214	233.79	238.17	206.44	200.92
Kuwait	3,772	4,000	3,853.86	3,500.79	2,701.74	2,451.71
Netherlands	1,004	821	625.31	440.02	259.56	163.90
Spain	948	1,072	1,170.45	1,192.46	1,033.69	1,006.05
South Korea	2,796	3,054	2,934.63	2,769.10	2,565.27	2,319.39
Abu Dhabi Fund	4,621	5,903	7,142.40	8,039.29	7,480.39	7,343.95
Saudi Arabia	266	863	1,140.93	1,476.31	2,480.54	2,674.12
Private Creditors	**74,306**	**71,051**	**121,830**	**118,909**	**111,684**	**102,737**
Private Creditors(3)	32,246	29,009	60,053.82	58,055.46	51,856.88	46,068.97
Eurobond	42,060	42,042	61,776.00	60,853.50	59,827.50	56,668.50
Rescheduled Debt	**7,161**	**5,896**	**4,617**	**3,516**	**2,191**	**1,687**
Paris Club	3,070	3,171	3,093.06	2,733.23	1,965.10	1,687.46
Italy	258	242	215.94	181.57	134.92	112.08
Russia	2,811	2,929	2,877.11	2,551.65	1,830.19	1,575.38
Others	4,092	2,724	1,524.22	782.31	226.06	—
Turkey	557	378	137.28	—	—	—
Greece	1,865	1,641	1,279.72	782.31	226.06	—
China	672	380	—	—	—	—
Romania	83	31	—	—	—	—
Slovakia	52	—	—	—	—	—
Croatia	140	—	—	—	—	—
Macedonia	61	—	—	—	—	—
Czech Republic	103	—	—	—	—	—
Bosnia—Herzegovina	125	—	—	—	—	—
Serbia	434	295	107	—	—	—
Total	**363,906**	**412,429**	**490,897**	**504,588**	**510,286**	**495,620**

Source: Ministry of Finance and Economy

Notes:

(1) Includes Central Government external debt and Central Government external guaranteed debt.

(2) See "—*Relationships with Multilateral Financial Institutions*".

(3) Private Creditors include Alpha Bank, London Branch, National Bank of Greece, London Branch and Deutsche Bank AG, London Branch.

The following table sets forth Albania's external debt, by category of creditor and maturity, as at the dates indicated.

External Debt by Category of Creditor and Maturity Profiles

	As at 31 December										As at 30 June	
	2013		2014		2015		2016		2017		2018	
	(ALL millions)	*(%)*	*(ALL millions)*	*(%)*	*(ALL millions)*	*(%)*	*(ALL millions)*	*(%)*	*(ALL millions)*	*(%)*	*(ALL millions)*	*(%)*
Long-term Debt	363,906	100.0	412,429	100.0	490,897	100.0	504,588	100.0	510,286	100.0	495,620	100.0
Multilateral	*204,083*	*56.1*	*249,163*	*60.4*	*268,006*	*54.6*	*282,374*	*56.0*	*299,498*	*58.7*	*299,881*	*60.5*
Bilateral	*78,355*	*21.5*	*86,319*	*20.9*	*96,443*	*19.6*	*99,790*	*19.8*	*96,912*	*19.0*	*91,314*	*18.4*
Private Creditors	*74,306*	*20.4*	*71,051*	*17.2*	*121,830*	*24.8*	*118,909*	*23.6*	*111,684*	*21.9*	*102,737*	*20.7*
Rescheduled[(1)]	*7,161*	*2.0*	*5,896*	*1.4*	*4,617*	*0.9*	*3,516*	*0.7*	*2,191*	*0.4*	*1,687*	*0.3*
Short-term	—	—	—	—	—	—	—	—	—	—	—	—
Total	**363,906**	**100.0**	**412,429**	**100.0**	**490,897**	**100.0**	**504,588**	**100.0**	**510,286**	**100.0**	**495,620**	**100.0**

Source: Ministry of Finance and Economy

Note:

(1) All rescheduled debt was originally incurred before 1992 by previous Communist governments.

Debt Service

The following table sets forth Albania's historical public debt service as at the dates and for the periods indicated.

Historical Public Debt Service[(1)]

	As at 31 December					As at 30 June
	2013	2014	2015	2016	2017	2018
	(ALL millions, except for ratios)					
Interest payments	43,335	39,937	38,642	36,259	31,904	15,384
Domestic	35,890	31,696	27,385	25,526	21,415	11,851
Foreign	7,445	8,241	11,258	10,733	10,489	3,532
Interest payments/GDP *(%)*	3.21	2.86	2.71	2.46	2.05	0.93
Total debt service/GDP *(%)*	**4.16**	**4.14**	**7.03**	**3.96**	**3.71**	**1.73**

Source: Ministry of Finance and Economy

The following table sets forth Albania's external debt service projections, by type of debt, for the years indicated. The projections are based on Albania's existing external debt stock as at 30 June 2018 and without taking into account the issuance of the Notes or the completion of the Tender Offer.

External Debt Service Projections for Public Debt by Type of Debt

	2018[1]	**2019**	**2020**	**2021**	**2022**	**2023**	**2024-2053**	**Total Payments**
				(ALL millions)				
Principal	**13,295**	**29,096**	**86,348**	**33,543**	**35,184**	**34,511**	**263,644**	**495,620**
Guaranteed	2,146	3,816	3,045	2,990	2,687	2,393	14,968	32,044
Floating rate.	*1,451*	*2,374*	*1,603*	*1,603*	*1,542*	*1,444*	*8,836*	*18,851*
Fixed rate	*695*	*1,442*	*1,442*	*1,388*	*1,146*	*949*	*6,132*	*13,193*
Government debt	11,149	25,280	83,304	30,552	32,497	32,119	248,676	463,576
Floating rate.	*3,702*	*11,581*	*15,203*	*18,914*	*20,718*	*20,565*	*142,941*	*233,625*
Fixed rate	*7,446*	*13,699*	*68,101*	*11,638*	*11,778*	*11,554*	*105,735*	*229,951*
Interest	**6,874**	**10,071**	**11,029**	**6,560**	**5,973**	**5,372**	**30,449**	**76,328**
Guaranteed	260	528	420	318	255	206	739	2,726
Floating rate.	*98*	*247*	*191*	*138*	*120*	*104*	*350*	*1,248*
Fixed rate.	*162*	*281*	*229*	*179*	*135*	*102*	*389*	*1,477*
Government debt.	6,614	9,543	10,609	6,243	5,718	5,166	29,710	73,602
Floating rate.	*1,770*	*3,339*	*4,703*	*3,840*	*3,583*	*3,279*	*24,394*	*44,909*
Fixed rate.	*4,843*	*6,204*	*5,906*	*2,402*	*2,135*	*1,887*	*5,315*	*28,693*
Total	**20,169**	**39,167**	**97,378**	**40,103**	**41,156**	**39,883**	**294,093**	**571,948**

Source: Ministry of Finance and Economy

Note:
(1) July to December 2018.

The following table sets forth Albania's central Government domestic debt service projections, by type of debt, for the years indicated, based on Albania's existing domestic debt stock as at 30 June 2015.

Central Government Domestic Debt Service Projections for Public Debt by Type of Debt

	2018[1]	**2019**	**2020**	**2021**	**2022**	**2023**	**2024-2028**	**Total**
					(ALL millions)			
Principal payments	**122,223**	**199,091**	**63,026**	**41,260**	**39,808**	**29,140**	**70,095**	**564,643**
Loans	—	—	—	—	—	—	—	—
Securities	122,223	199,091	63,026	41,260	39,808	29,140	70,095	564,643
Interest payments	**11,434**	**19,529**	**13,621**	**10,812**	**8,455**	**6,307**	**10,304**	**80,462**
Loans	—	—	—	—	—	—	—	—
Securities	11,434	19,529	13,621	10,812	8,455	6,307	10,304	80,462
Total	**133,657**	**218,619**	**76,647**	**52,072**	**48,263**	**35,448**	**80,399**	**645,105**
Loans	—	—	—	—	—	—	—	—
Securities	133,657	218,619	76,647	52,072	48,263	35,448	80,399	645,105

Source: Ministry of Finance and Economy

Note:
(1) July to December 2018.

Contingent Liabilities

The following table sets forth the contingent liabilities that arise from guarantees given by Albania as at the dates indicated.

Contingent Liabilities Arising from Guarantees

	As at 31 December					As at 30 June
	2013	2014	2015	2016	2017	2018
			(ALL millions)			
Publicly-guaranteed debt	51,324	54,540	56,030	53,468	49,885	47,434
Domestic guarantees	*19,918*	*26,033*	*30,439*	*30,286*	*30,117*	*15,390*
External guarantees	*31,406*	*28,507*	*25,591*	*23,182*	*19,768*	*32,044*

Source: Ministry of Finance and Economy

Domestic guarantees are currently only provided in respect of KESH. The share of such domestic guarantees, as a percentage of total guaranteed debt, increased from 38.8% in 2013, to 60.4% as at 31 December 2017, reflecting the Government's support for the energy sector. See "*The Albanian Economy—Principal Sectors of the Economy—Energy—Energy Sector Reform*".

In the six months ended 30 June 2018, a portion of this domestic guaranteed debt was refinanced through a guaranteed loan entered into with the EBRD (see "*—Relationships with Multilateral Financial Institutions—European Bank for Reconstruction and Development*"). Accordingly, the share of domestic guarantees, as a percentage of total guaranteed debt, decreased to 32.4% as at 30 June 2018.

External guarantees issued cover different economic sectors, such as the energy, water supply and railway sectors, and have fluctuated since 2013 in line with the needs of such sectors. Limits on external guarantees are set out in the annual budget law and agreements providing external guarantees are subject to approval by the Assembly.

Defaults

Albania has not defaulted or delayed interest payments on any of its indebtedness since 1991. Albania has certain indebtedness that was originally incurred before 1992 by previous Communist governments and which has been rescheduled on concessional terms.

Credit Ratings

Albania's long-term foreign currency is rated B1 (outlook stable) by Moody's and B+ (outlook stable) by S&P. In August 2018, S&P affirmed Albania's long-term foreign currency credit rating. In September 2018, Moody's affirmed Albania's long-term foreign currency credit rating.

Relationships with Multilateral Financial Institutions

Albania has entered into a number of loans with, and benefits from a number of grants from, multiple multilateral financial institutions. See *"—External Debt."*

European Bank for Reconstruction and Development

The EBRD is one of the largest institutional investors in Albania. Albania has been a member of the EBRD since 18 December 1991, owning 0.1% of the EBRD's shares. The EBRD has supported Albania's transition to a market economy through the financing of projects in various economic sectors, with an emphasis on energy and infrastructure projects. Since beginning its activities in Albania, the EBRD has committed €1,021 million to 82 projects in infrastructure, energy and financial sectors, with 51.0% of such funding granted to private sector projects. As at 20 August 2018, the current portfolio of EBRD projects was €424 million, with the private sector accounting for 21% of the portfolio.

In July 2016, the EBRD granted KESH, the state-owned electricity generation company, a €218 million loan to support its company reform and support efforts. The loan benefits from a sovereign guarantee. In 2018, a first tranche of €118 million was disbursed under the loan, which permitted the repayment of a number of short-term guaranteed loans (see "*—Contingent Liabilities*"). The second tranche of €100 million is expected to be disbursed in 2019.

In July 2016, the EBRD and the Government launched the Albania Agribusiness Support Facility. This facility is aimed at enhancing access to finance for local agribusinesses by providing direct credit lines or by sharing the risk of lending to the agribusiness sector with partner financial institutions. The Government has made available €36 million over three years to support the facility and the EBRD is providing up to €100 million in funding and risk sharing facilities. A number of financial institutions have signed a memorandum of understanding to participate in the programme.

In November 2016, the EBRD approved a €36.9 million sovereign loan for the benefit of Albanian Railways. This loan is aimed at financing the rehabilitation of the railway line between the cities of Tirana and Durrës (with a length of approximately 34.17 km) and the construction of a new 5 km-long railway line connecting the Tirana- Durrës line with TIA. The loan is expected to be used to co-finance the construction works of this project. The project is part of Route 2 of the Western Balkans Core Network connecting the cities of Podgorica in Montenegro and Vlore in Albania and has been established as an indicative extension to the Trans-European Transport Networks ("**TEN-T**") to the Western Balkans core railway network. In May 2018, the EBRD announced the availability of an additional €35.5 million from the Western Balkans Investment Framework to complement the EBRD loan. These additional funds are expected to be used for modernisation works on more than 34 km of existing railway line between Tirana and Durres, as well as the construction of a new 7.4 km railway line connecting both cities to TIA.

International Monetary Fund

Albania joined the IMF on 15 October 1991. Albania's current quota is SDR 139.3 million, with 2,856 votes or 0.06% of the total votes of all IMF members. A member country's quota determines its maximum financial commitment to the IMF, its voting power and has a bearing on its access to IMF financing. As at 30 June 2018, Albania had SDR 296.09 million in amounts owed to the IMF.

Since Albania's membership, seven arrangements have been entered into with the IMF. Most recently, in February 2014, the IMF approved a 36-month, SDR 295.42 million (approximately €330.9 million) arrangement under the EFF for Albania in support of the Government's reform programme. The conditions under the EFF arrangement included the implementation of Government objectives regarding economic growth, fiscal performance, inflation expectations, pension reforms, arrears clearance and prevention reforms, NPLs reduction and improved financial sector supervision. In February 2017, Albania drew down the last instalment of the EFF arrangement, successfully concluding the three-year programme.

Albania is subject to routine visits by the IMF as part of the post-programme monitoring phase. In May 2018, the IMF Executive Board completed its first post-program monitoring, noting that "Albania's capacity to repay the [IMF] is adequate reflecting a strong record of repayment to the [IMF], relative macro-economic stability, and progress in reforms."

World Bank

The World Bank started its co-operation with Albania in 1991. It has supported a number of projects aimed at alleviating poverty and providing the tools for long-term development to foster further growth. The World Bank has provided more than U.S.$2.4 billion in assistance through commitments from the IDA, the IBRD, the International Finance Corporation ("**IFC**") and the Multilateral Investment Guarantee Agency ("**MIGA**"). The current portfolio consists of 11 projects with a total value of U.S.$645.0 million in IDA and IBRD loans. Current projects include investments in the energy, water supply and sewerage, health, social assistance, environment, infrastructure, urban development and tourism and innovative consumer services sectors.

With support from the World Bank, the Government has undertaken structural reforms (in particular in the energy sector and in respect of local government consolidation and decentralisation efforts) to promote growth and improve public finance management, including the development of a liquidation and prevention strategy with respect to new arrears. The World Bank is supporting Government programmes to strengthen the financial sector and reduce vulnerability.

On 21 May 2015, the World Bank endorsed the 2015-2019 Country Partnership Framework (the "**CPF**") for Albania, which sets out a lending programme of up to U.S.$1.2 billion over a five-year period aimed at supporting Albania's aspirations to achieve steady growth and EU integration. The CPF supports three focus areas: (i) promoting fiscal sustainability and financial stability, with the aim of supporting measures for improved fiscal consolidation, strengthened public investment management in the transport sector and improved overall financial stability; (ii) stimulating private sector growth, pursuant to which the World Bank intends to provide support to increase competitiveness and job creation and reduce barriers in the business environment and infrastructure gaps; and (iii) strengthening public sector management and service delivery, in order to build citizens' trust in the Government, and improve service delivery and access to basic services. As at 30 June 2018, more than 70% of the funds targeted under the CPF have been committed in the form of budgetary support or project implementation.

The Council of Europe Development Bank

The Council of Europe Development Bank (the "**CEB**") represents a major instrument of the policy of solidarity for its 41 member states, using its resources in the financing of social projects in order to help member states achieve sustainable and equitable growth. Albania has been a member of the CEB since 24 April 1999. The CEB has financed 12 projects in Albania, with a total amount of more than €161.1 million. These projects are mainly focused in the healthcare, education and infrastructure sectors.

The Islamic Development Bank

The Islamic Development Bank (the "**IDB**") is an international financial institution, which aims to foster the economic development and social progress of member countries and Muslim communities. Albania joined the IDB in 1993 and owns 0.02% of the IDB's total capital. The IDB has financed projects in Albania primarily in the infrastructure, agriculture and health care sectors, with a total amount of more than U.S.$523.9 million of loans approved.

The OPEC Fund for International Development

The OPEC Fund for International Development (the "**OFID**") is a development finance institution that aims to promote cooperation between member states of the Organisation of Petroleum Exporting Countries ("**OPEC**") and other developing countries. Co-operation with Albania began in 1992, with the OFID providing financial support to infrastructure projects in the agriculture, education, health care, transportation and water supply sectors, as well as providing direct support to private sector initiatives. As at 20 August 2018, total commitments under the project portfolio with the OFID were U.S.$112.2 million.

European Union

EU funding for projects in Albania is provided in the form of grants, contracts and budget support. The EU has provided Albania with financial assistance through a range of programmes, notably the Instrument for Pre-Accession Assistance ("**IPA**") 2014-2020, pursuant to which the EU has allocated Albania funding of €639.5 million for 2014 – 2020, of which €323.2 million was allocated to initiatives in 2014-2017 and €316.3 million is expected to be allocated to initiatives in 2018-2020. The 2017 Annual Action Plan for Albania under the IPA programme, which was adopted by the European Commission in November 2017, authorised a maximum EU contribution of €61.2 million in 2017. See "*The Republic of Albania—International Relations—European Union*."

The programming of future EU funding and the effectiveness, quality and co-ordination of the implementation of ongoing EU funding programmes is discussed at an annual meeting of the EU IPA Monitoring Committee and Albanian authorities. The most recent meeting was held in March 2018, during which the EU reconfirmed its commitment to support Albania in the implementation of reforms, focusing on governance, justice and the rule of law, connectivity, competitiveness and socio-economic development.

In addition, between 2015 and June 2018, Albania has entered into separate loan and grant agreements with Germany in an aggregate principal amount of €227.3 million, with the aim of further developing the energy and water supply sectors and to provide support for farmers and small enterprises.

European Investment Bank

Since 2000, the EIB has disbursed over €359 million of loans in support of the Albanian economy, in particular, supporting infrastructure projects, such as the construction of the national road network and port infrastructure. See "*The Albanian Economy—Principal Sectors of the Economy—Transport and Infrastructure*".

MONETARY AND FINANCIAL SYSTEM

The Bank of Albania

On 22 April 1992, the Bank of Albania was established and vested with the functions of the central bank of the Republic of Albania. Its operations are governed by Law № 8269 of 23 December 1997 "On the Bank of Albania" (the "**Bank of Albania Law**"), which outlines the Bank of Albania's powers and responsibilities. The Bank of Albania is the issuer of all Albanian currency. The Bank of Albania acts as banker and advisor to, and fiscal agent of, the Government, and is responsible for formulating and implementing Albania's monetary policy, supporting financial stability, implementing foreign exchange and exchange rate policy, managing foreign reserves, promoting the normal functioning of payment systems and regulating and supervising the banking sector, including, *inter alia*, granting and revoking banking licenses. Since the entry into force of the Law "On the recovery and resolution of Banks in the Republic of Albania" in July 2017, the Bank of Albania has the authority to step in (as the resolution authority) and use resolution tools in connection with failing banks and bank insolvencies. See "*—The Albanian Banking Sector—Bank Resolution and Resolution Fund*".

The Bank of Albania's primary monetary objective is to achieve and maintain price stability. It is an independent and autonomous institution, accountable to the Assembly, with paid-up capital owned exclusively by the Republic. The Bank of Albania is governed by the Supervisory Council, which consists of the governor, two deputy governors and six other members. The governor is appointed by the Assembly, and the two deputy governors are appointed by the Supervisory Council. The term of office of the members of the Supervisory Council is seven years. In September 2014, the then-governor and the internal auditor of the Bank of Albania were removed from office by the Assembly, upon the request of the Supervisory Council of the Bank of Albania, on charges of dereliction of duty relating to a vault theft in which a mid-level employee of the Bank of Albania is alleged to have stolen U.S.$6.6 million over a four-year period. In February 2015, the Assembly appointed Mr. Gent Sejko as the governor of the Bank of Albania. Mr. Sejko's current term of office is scheduled to expire in 2022.

In July 2007, the Bank of Albania signed a Memorandum of Understanding with the central banks of neighbouring nations. Comprised of the supervisory bodies of Macedonia, Greece, Bulgaria, Cyprus, Romania, Serbia, Bosnia and Herzegovina, Republic of Srpska and Montenegro, as well as Albania, the co-operative endeavour seeks to facilitate the exchange of information, views and assessments among banking supervisors and to promote a better understanding of each other's methods and approaches with the aim of encouraging the alignment of supervisory practices.

The Bank of Albania is engaged in a medium-term project to amend the Bank of Albania Law to align it more fully with the European System of Central Banks and is currently working with international partners to draft the relevant amendments.

An Audit Committee was established in May 2015 to assist the Supervisory Council of the Bank of Albania in fulfilling its oversight responsibilities in respect of the financial reporting process, the system of internal control, the audit process and the process for monitoring compliance with laws, regulations and codes of conduct. The Audit Committee is composed of three members of the Supervisory Council, which are appointed by the Supervisory Council for a three-year period.

In April 2017, a memorandum of understanding was signed among the Bank of Albania, the Ministry of Finance and Economy and the Albanian Financial Supervisory Authority (the AFSA) to increase the use of the Lek in the Albanian financial system and economy (the de-Euroisation policy) with the aim of improving the transmission of monetary policy and reducing risks to financial stability. See "*—Monetary Policy*".

The following table sets forth the sectoral balance sheet of the Bank of Albania as at the dates indicated.

Balance Sheet of the Bank of Albania

	As at 31 December					As at 30 June
	2013	2014	2015	2016	2017	2018
	(ALL millions)					
Total Assets	**398,813.6**	**433,878.0**	**516,357.9**	**524,730.8**	**532,927.0**	**495,278.0**
Monetary gold and SDR holdings	16,701.5	19,299.7	30,578.8	27,211.8	25,725.3	22,265.0
Foreign currency	57.3	56.2	84.9	52.0	24.3	28.2
Deposits	23,892.8	32,524.0	93,147.1	104,622.9	161,617.3	183,232.9
Securities other than shares	308,387.0	320,744.6	323,679.0	315,112.7	259,537.8	216,811.0
Loans	23,333.2	27,286.3	14,641.1	31,660.3	41,591.0	30,300.6
Financial derivatives	31.5	17.4	27.7	15.8	11.7	20.1
Receivable accounts	11,994.2	18,197.8	32,741.6	25,094.1	23,844.9	22,069.2
Non-financial assets	14,416.4	15,752.1	21,457.8	20,961.2	20,574.7	20,551.0
Total Liabilities	**398,813.6**	**433,878.0**	**516,357.9**	**524,730.8**	**532,927.0**	**495,278.0**
Currency in circulation	207,792.7	226,434.1	239,218.1	258,848.0	274,711.8	268,278.5
Deposits included in broad money	249.7	154.2	1,787.9	3,183.2	3,899.2	123.0
Deposits excluded from broad money	132,764.9	140,569.3	201,585.6	191,379.7	200,513.9	185,154.3
Loans	2,919.3	2,294.2	1,809.6	314.2	115.6	55.6
Other accounts payable	1,828.3	889.8	461.3	1,164.6	463.8	560.8
SDR allocation	7,287.5	7,753.2	8,104.4	7,981.2	7,340.5	7,067.3
Shares and other equity	45,971.3	55,783.2	63,391.1	61,859.9	45,882.2	34,038.4

Source: The Bank of Albania

The Ministry of Finance and Economy maintains a deposit account denominated in Lek with the Bank of Albania of approximately ALL 20.4 billion (based on the eight-month average balance between January and August 2018), according to account information provided by the Bank of Albania to the Ministry of Finance and Economy's Treasury Office.

Monetary Policy

Pursuant to Article 3, paragraph 4(a)(1) of the Bank of Albania Law, the Bank of Albania's duty is "to independently formulate, adopt and implement the monetary policy of Albania, consistent with its main objective". The Bank of Albania acts independently in setting targets for its monetary policy and selecting operational instruments to achieve it. Monetary policy is communicated through quarterly monetary policy reports and press conferences held following meetings of the Supervisory Council.

The primary objective of the Bank of Albania's monetary policy is to achieve and maintain price stability. In accordance with its obligations arising from the Bank of Albania Law, the Bank of Albania formulates and implements policies seeking to achieve price stability by pursuing low but positive long-term inflation rates. In this respect, the Bank of Albania is committed to achieving and maintaining annual inflation at 3.0%. Inflation, however, has remained below this medium-term target since 2012. The inflation target is measured by the annual rate of change in consumer price index ("**CPI**"), as calculated and published by INSTAT. The main indicator of the balance of inflationary pressures in the economy is the deviation of the medium-term forecast inflation from the target. See "—*Inflation*".

In compliance with its policies regarding inflation, the Bank of Albania implements a free-floating exchange rate and is committed to maintaining sufficient levels of foreign reserves to cover at least four months of imports and 100% of Albania's short-term foreign debt. See "—*Foreign Reserve Assets*".

The instruments employed by the Bank of Albania in conducting monetary policy include open market operations and standing facilities. The Bank of Albania provides liquidity in the financial markets through reverse repurchase agreements ("**reverse repos**"), with maturities of one week to three months, although the Bank of Albania's primary tool for implementing monetary policy and its main open market operation is the seven-day maturity reverse repo. Since 1 January 2010, reverse repos have been issued by way of variable-price auctions; previously, these operations were conducted through fixed-price auctions.

In order to try to meet its inflation target, the Bank of Albania has adopted an expansionary monetary policy stance. Key tools and stimulus measures used to further this monetary policy stance in recent years have included:

- lowering the Bank of Albania's policy rate on a number of occasions since 2011 by a total of 425 basis points to a historic low of 1.00% in June 2018, which has resulted in lower refinancing costs for the banking sector and, in turn, the real sector of the economy;

- injecting liquidity into the interbank market, increasing both volume and average duration, which has contributed to the continued normal functioning of the interbank market and facilitated the fulfilment of the Bank of Albania's role as an intermediary of funds in the economy; in 2017, the Bank of Albania injected an average of approximately ALL 34 billion per week in the interbank market, as compared to ALL 24 billion per week in 2016; and

- using monetary policy forward guidance to reassure participants that the strength and intensity of monetary stimulus measures (including those listed above) will be maintained in future periods, with the aim of anchoring medium-term inflation expectations and reducing long-term market interest rates.

In June 2018, the Bank of Albania increased its monetary stimulus measures by lowering its policy rate to 1.00% and approving a programme of interventions in the foreign exchange market. These decisions were aimed at preventing the materialisation of the negative effects of the strong and rapid appreciation of the Lek in the six months ended 30 June 2018 against certain foreign currencies, in particular the Euro, on the achievement of the inflation target and other economic indicators. See "—*Exchange Rate Policy and Operations*". The Bank of Albania has also lowered the reserve requirement ratio for liabilities denominated in Lek and has increased the reserve requirement ratio for liabilities denominated in foreign currency as part of its de-Euroisation policy. These measures were aimed at supporting economic recovery, leading to improvements in household consumption and investment due to the low interest rate environment and increased access to Lek-denominated credit.

In April 2017, a memorandum of understanding was signed among the Bank of Albania, the Ministry of Finance and Economy and the AFSA to further the de-Euroisation policy with the aim of improving the transmission of monetary policy and reducing risks to financial stability. In February 2018, the Bank of Albania adopted a number of reform measures in line with the de-Euroisation policy, including:

- ***Changing the mandatory reserve rate***. The mandatory reserve rate for foreign currency liabilities has been raised to 12.5% from 10%, while the mandatory reserve rate for Lek liabilities has been reduced to 7.5% from 10%. For banks with foreign currency liabilities accounting for more than 50% of their total liabilities, the required reserve rate in foreign currency has been increased to 20% in respect of liabilities in excess of this 50% threshold.

- ***Increasing the minimum regulatory requirement for the value of liquid assets in foreign currency***. Liquid assets denominated in foreign currency must comprise no less than 20% of short-term liabilities in foreign currency (increased from 15%). The requirement for liquid assets denominated in Lek remains at 15%.

- ***Raising borrowers' awareness of the risks of foreign currency borrowing***. The reform measures adopted by the Bank of Albania require banks to: (i) propose alternative Lek-denominated credit to borrowers; (ii) provide borrowers with a concrete example of how a foreign currency loan instalment may change in the case of movements in the exchange rate; and (iii) offer borrowers the option of employing mechanisms that mitigate exchange rate risk.

Inflation

The following table sets forth inflation rates based on changes in the annual average CPI and producer price index ("**PPI**") in Albania for the periods indicated.

Inflation Rates by CPI and PPI

	Annual average for the year ended					**Average for the eight months ended 31 August**	
	2013	**2014**	**2015**	**2016**	**2017**	**2017**	**2018**
			%				
CPI Inflation	1.9	1.6	1.9	1.3	2.0	1.6	2.2
PPI Inflation	(0.4)	(0.5)	(2.1)	(1.4)	2.6	2.0(1)	2.4(1)

Source: INSTAT

Note:

(1) Figure presented is for the six months ended 30 June.

The Bank of Albania has an annual inflation target of 3.0%. Annual average inflation, as measured by the CPI, averaged 1.6% in 2014, 1.9% in 2015, 1.3% in 2016 and 2.0% in 2017. In the eight months ended 31 August 2017 and 2018, average inflation was 1.6% and 2.2% respectively. These lower-than-targeted inflation rates were primarily due to low global inflation and related disinflationary pressures from abroad, weak domestic demand and low international commodity prices, as well as the effects of the appreciation of the Lek versus the Euro and other foreign currencies. The Bank of Albania expects inflation to increase and to gradually reach target levels, supported by its expansionary monetary policy, economic expansion and rising wage growth. There were increases in core inflation rates in 2017 and the eight months ended 31 August 2018, reflecting increasing domestic inflationary pressures amid higher levels of capacity utilisation and tightening in the labour market. There were also higher non-core inflation rates in 2017, including increases in international oil prices. The appreciation of the Lek against the Euro has restricted the passing on of foreign inflationary pressures into the domestic market.

The IMF forecasts the CPI growth rate to be 2.5% in 2018 and 2.8% in 2019.

Money Supply

Money supply has expanded at relatively moderate rates in recent years, reflecting subdued money demand and a preference for non-monetary instrument savings products. Credit to the private sector is improving, reflecting the expansion of the Lek credit portfolio. Credit expansion remains moderate, however, reflecting tight corporate lending conditions imposed by banks and moderate demand, though demand has improved in recent periods.

After a record low in 2014, credit to the private sector increased slightly in 2015 and has since experienced moderate growth. The share of Lek-denominated lending, as a percentage of total lending to the private sector, was 47% as at 30 June 2018, reflecting a 7.7% increase, as compared to as at 31 December 2014. Low interest rates for Lek-denominated instruments and an increased awareness of credit risks in foreign currency, supported by the Bank of Albania's reform measures, have facilitated this development. See "—*Monetary Policy*". The growth in net foreign assets has been the largest contributor to the expansion of money supply since 2014. Domestic financing of the public sector has also contributed to the expansion of money supply.

Banks primarily finance their intermediation activities with deposits from households. Year-on-year deposit growth has been moderate in recent years. In an environment of low deposit interest rates, economic agents have shifted part of their savings towards longer maturity deposits (over two years), as well as towards higher-yielding Government securities. Depositors have also demonstrated a preference for more liquid assets, as reflected by a shift from time deposits to demand deposits, as well as an increase in cash held outside of banks.

The table below sets forth certain statistics relating to money aggregates as at the dates indicated.

Money Aggregates

	As at 31 December					As at 30 June
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
	(annual growth rate (%))					
M1 (*banknotes, coins, demand deposits*)	5.2	19.4	8.7	13.4	6.0	4.3
M2 (*M1 plus deposits in local currency*)	3.5	4.2	0.1	1.9	0.3	(1.1)
M3 (*M2 plus deposit in foreign currency*)	2.3	4.0	1.8	3.9	0.3	(0.7)

Source: The Bank of Albania

Foreign Reserve Assets

The Bank of Albania's current framework for the management of foreign reserve assets was developed with the assistance of the World Bank, following the enrollment of the Bank of Albania in the Reserves Advisory Management Program in September 2005.

In February 2017, the Supervisory Council approved a new regulation "On the policy and management of foreign exchange reserves", which sets out the purposes of maintaining foreign reserve assets. The Bank of Albania's investment policy was approved in 2000, was significantly revised in 2006 and has been reviewed periodically thereafter, with the last review occurring in 2017. The objectives of the Bank of Albania's foreign exchange management, as set out in the investment policy, are subject to the approval by the Supervisory Council and primarily consist of liquidity and security, followed by the generation of reasonable returns in the medium- to long-term. The Bank of Albania is committed to maintaining an adequate level of foreign reserves in order to shield against potential pressures originating from adverse developments in the external balance of the economy and to safeguarding financial stability.

Since 2016, the framework for assessing the adequacy of foreign reserve assets has taken into account the cost of holding reserves, while requiring that foreign reserves are sufficient to cover at least four months of imports and 100% of Albania's short-term external debt. Any market interventions made by the Bank of Albania for purposes of increasing reserves are scheduled and announced.

The Bank of Albania's Investment Committee approves the quantitative criteria applied to foreign reserve assets management based on the limits set forth by the Supervisory Council and monitors the compliance with the restrictions for permitted levels of risk and foreign reserve investment portfolio performance.

In accordance with the decisions of the Supervisory Council on eligible instruments, foreign reserve assets are invested in fixed or floating rate income securities, in deposits or certificates of deposit and in derivative instruments. The remaining foreign reserve assets are held in SDRs and in monetary gold.

As at 31 August 2018, U.S.$57,760 of the Bank of Albania's foreign reserve assets were pledged, collateralised or otherwise encumbered.

The table below sets forth the total foreign reserve assets (including gold) held by the Bank of Albania and reserve adequacy indicators as at the dates indicated.

Total Foreign Reserve Assets

	As at 31 December					As at 30 June
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
			(€ millions)			
Reserve Assets	**2,015**	**2,192**	**2,880**	**2,945**	**2,996**	**2,958**
Monetary gold	44	50	49	56	55	54
SDR	75	88	174	146	139	122
Reserve position in the Fund	7	7	8	33	31	31
Other reserve assets	1,889	2,047	2,649	2,711	2,772	2,750
In months of import	4.7	5.5	7.6	7.2	6.7	6.4(1)
% of short-term debt	143	145	157	178	179	158(1)
NIR (*€ millions*)	**1,458**	**1,539**	**1,602**	**1,691**	**1,766**	**2,010**

Source: The Bank of Albania

Note:

(1) Estimated.

The majority of Albania's foreign reserve assets is invested with highly-rated institutions. The Bank of Albania's foreign reserve assets as at 30 June 2018 was €2.96 billion, which is estimated to cover 6.4 months of imports and 158% of Albania's short-term external debt. The level of foreign reserve assets as at 30 June 2018 has decreased, as compared to 31 December 2017, reflecting the seasonal behaviour of commercial banks, which have historically deposited larger amounts of foreign currency at the Bank of Albania towards the end of a fiscal year. The level of foreign reserve assets as at 30 June 2018, however, remains close to the average of the last three years.

The overall increase in foreign reserve assets since 2014 is primarily due to inflows of foreign currency from the disbursement of funds under the EFF arrangement with the IMF and funds from the World Bank, as well as increases in other reserve assets. See "*Public Debt—Relationships with Multilateral Financial Institutions—International Monetary Fund*" and "*Public Debt—Relationships with Multilateral Financial Institutions—World Bank*".

Interest Rates

The following table sets forth the average Bank of Albania interest rates in Lek as at the dates indicated.

Average interest rates

	As at 31 December					As at 30 June
	2013	**2014**	**2015**	**2016**	**2017**	**2018(1)**
				(% average)		
Interest rate (*day-to-day money rate, per annum*)	3.5	2.56	1.92	1.37	1.22	1.21
Lending interest rate (*one year, per annum*)	9.87	7.97	7.89	7.44	6.22	5.87
Deposit interest rate (*one year, per annum*)	4.16	1.91	1.39	0.83	0.77	0.81

Source: The Bank of Albania

Note:

(1) Average for the six months ended 30 June 2018.

Interest rates in Albania are determined using free market mechanisms. The Bank of Albania does not apply administered interest rates for specific sectors of the economy. In accordance with its monetary policy framework, the Bank of Albania aims to influence short-term interest rates in the interbank market by managing the Bank of Albania's policy rate (currently 1%) and conducting open market operations, with the ultimate aim of anchoring inflationary expectations.

Since 2010, financial markets activity has increased and interest rates have generally declined. The Bank of Albania's monetary policy in respect of interest rates and stimulus reforms has been one of the main drivers of decreasing interest rates. In 2016, the average interest rate for deposits in Lek dropped below the Bank of Albania's then-policy rate, reflecting low liquidity needs, as well as a slowing demand for credit. The average interest rate for deposits in Lek remained below the current policy rate of 1% (at 0.8%) in 2017 and in the six months ended 30 June 2018. The decline in Lek lending interest rates has resulted in the growth of lending in Lek, which has, in turn, contributed to an increase in the share of the Lek portfolio as a percentage of overall lending to the private sector.

The interest rate for Lek-denominated deposits has remained almost unchanged since 2016 at 0.8%. Interbank market rates and government securities yields have also decreased to historically-low levels, in line with policy rate decreases.

Since 2011, the Bank of Albania has pursued an accommodative monetary policy, reducing its policy rate by a total of 425 basis points to a historic low of 1.0%. The most recent changes to the policy rate were made in June 2018 (decreased by 25 basis points to 1.0%), May 2016 (decreased by 25 basis points to 1.25%), April 2016 (decreased by 25 basis points to 1.5%), November 2015 (decreased by 25 basis points to 1.75%) and January 2015 (decreased by 25 basis points to 2.0%). See "*—Monetary Policy*".

Exchange Rate Policy and Operations

The Bank of Albania implements a free-floating exchange rate regime, whereby the value of the Lek against foreign currencies is freely determined in the foreign exchange market in accordance with levels of supply and demand. The Bank of Albania intervenes in the foreign exchange market in accordance with the relevant internal regulations. The Bank of Albania may intervene in the exchange rate market to achieve one or more of three objectives: (i) to stabilise disorderly markets; (ii) to correct exchange rate misalignment; or (iii) to accumulate international reserves.

In line the Bank of Albania's framework for assessing the reserve adequacy, interventions to increase reserve levels have been pre-announced since 2014. During the period from 2013 to 2017, the Bank of Albania generally intervened in the foreign exchange market to encourage an increase in foreign reserves. In each year, intervention volumes accounted for 0.20%-0.4% of annual foreign exchange transactions conducted through the Albanian banking system.

The Lek to Euro exchange rate has shown a continuous appreciating trend since mid-2015, reflecting structural improvements in the Albanian economy, as demonstrated by the narrowing of the current account deficit, increased FDI and increased confidence in the domestic currency.

In the six months ended 30 June 2018, the Lek appreciated by 6.4% against the Euro (as compared to appreciation of 2.3% in 2017). The acceleration of appreciation in the six months ended 30 June 2018 was accompanied by heightened volatility and uncertainty in the foreign exchange market and weakened general inflationary pressures. In response to the appreciation of the Lek against the Euro, and with the aim of supporting the Bank of Albania's medium-term inflation target, the Bank of Albania approved a programme of interventions in the foreign exchange market. In strategic terms, the use of this instrument was aimed at preventing the materialisation of potential negative effects from the exchange rate appreciation on achieving the inflation target. In operational terms, the instrument was aimed at decelerating the exchange rate appreciation and creating the premises for more normal trading activity in the domestic foreign exchange market.

As at 31 July 2018, the Lek to Euro exchange rate was ALL 125.76 per €1.00. For the seven months ended 31 July 2018, the average Lek to Euro exchange rate was ALL 129.32 per €1.00. The Lek has also appreciated against the U.S. Dollar, primarily reflecting the effect on the international markets of changes in the Euro to U.S. Dollar exchange rate. As at 31 July 2018, the Lek to U.S. Dollar exchange rate was ALL 107.27 per U.S.$1.00. For the seven months ended 31 July 2018, the average Lek to U.S. Dollar exchange rate was ALL 107.40 per U.S.$1.00.

See also "*Exchange Rates*".

The Albanian Banking Sector

The following table sets forth information on the Albanian banking sector as at the dates indicated.

Banking Sector(1)

	As at 31 December					As at 30 June
	2013	**2014**	**2015**	**2016**	**2017**	**2018**
Number of banks (fully foreign-owned)	16 (14)	16 (14)	16 (14)	16 (13)	16 (13)	14 (11)(2)
Asset share of fully foreign-owned banks *(%)*	88.6	87.1	86.1	82.6	81.4	80.8
Non-performing loans (as a % of total loans)	23.5	22.8	18.2	18.2	13.2	13.3
Domestic credit to private sector (as a % of GDP(3))	30.0	31.3	29.1	28.8	26.5	25.4
Domestic credit to households (as a % of GDP(3))	11.5	11.4	12.0	12.0	12.2	12.3
of which mortgage lending (as a % of GDP(3))	*8.0*	*7.7*	*7.6*	*7.4*	*7.4*	*7.4*
Capital adequacy ratio	17.9	16.8	15.8	16.0	16.6	17.9
Liquidity ratio(4)	34.7	40.4	41.4	40.6	40.8	43.2
Loan to deposit ratio	55.3	55.5	53.3	51.9	51.5	50.8

Source: The Bank of Albania

Notes:

(1) Certain figures in this table have been revised and may differ from previously published data.

(2) Figure as at 31 August 2018 and assuming that the mergers of (i) American Bank of Investment and NBG Albania, and (ii) Intesa SanPaolo Bank Albania and Veneto Banca occur.

(3) GDP figures as at 30 June 2018 are calculated using nominal GDP estimates of ALL 1,468 billion prepared by INSTAT in March 2018.

(4) The calculation method for the liquidity ratio was changed in 2018 to reflect more restrictive requirements imposed on liquid assets denominated in foreign currency in line with the Bank of Albania's de-Euroisation strategy. The minimum liquidity ratio for Lek-denominated assets is 15% and for foreign currency-denominated liquid assets is 20%. The overall required minimum liquidity ratio is 20%.

As at 30 June 2018, total assets of the banking sector constituted 91.8% of Albania's total financial assets and represented 97.1% of nominal GDP.

In 2017 and 2018, a number of EU banks, particularly Greek parent banks, announced their intention to sell their Albanian subsidiaries. In May 2018, Veneto Banca was acquired by Intesa SanPaolo Bank and in July 2018, American Bank of Investment purchased NBG Bank Albania. In September 2018, the Bank of Albania approved the merger of American Bank of Investment and NBG Albania and the merger of Intesa SanPaolo Bank Albania and Veneto Banca. Following these acquisitions (and assuming such mergers occur), as at 31 August 2018, the banking sector was comprised of 14 banks, of which three are domestically-owned, while the rest are wholly foreign-owned. In August 2018, the Bank of Albania received an application for the controlling interest in Societe Generale Albania to be transferred to OTP Bank Nyrt (a Hungarian bank). In August 2018, Piraeus Bank, the Greek parent bank of Tirana Bank, announced its intention to sell its 98.8% ownership interest in Tirana Bank to Balfin Group and Komercijalna Banka, subject to receipt of the necessary regulatory and corporate approvals. See "*Risk Factors—Risks relating to Albania—The high level of foreign ownership in the Albanian banking system makes it vulnerable to disruption as a result of internal or external factors*".

As at 30 June 2018, 80.8% of assets in the banking sector were held by foreign-owned banks. Following the privatisation of the Government's 40.0% equity stake in the United Bank of Albania in March 2009, the banking sector has been fully privatised.

NPLs accounted for 13.3% of the banking sector loan portfolio as at 30 June 2018, as compared to 13.2% as at 31 December 2017 and 23.5% as at 31 December 2013. The reduction of NPLs has been, and continues to be, a key focus of the Bank of Albania's supervision activities. See "*—Non-Performing Loans*".

The following table sets forth details of bank ownership in Albania, by country, as at 30 June 2018.

Bank Ownership in Albania

Bank	Country of Ownership	Assets	Deposits
		(%)	*(%)*
National Commercial Bank	Turkey	28.0	27.7
Raiffeisen Bank	Austria	16.6	16.5
Intesa San Paolo Bank	Italy	10.6	11.2
Credins Bank	Albania	12.9	13.4
Tirana Bank	Greece	5.08	4.89
Alpha Bank	Greece	5.32	5.26
Societe General Albania	France	6.00	5.97
National Bank of Greece(1)	Albania(2)	2.41	2.53
Procredit Bank	Germany	2.32	1.90
Union Bank	Albania	3.33	3.38
Veneto Banca(3)	Italy	1.44	1.42
American Bank of Investment (ex Credit Agricole)	Albania	2.92	3.09
First Investment Bank	Bulgaria	1.49	1.50
International Commercial Bank	Malaysia	0.72	0.67
United Bank of Albania	Saudi Arabia	0.61	0.51
Credit Bank of Albania	Kuwait	0.11	0.02
Total	—	**100.0**	**100.0**

Source: The Bank of Albania

Notes:

(1) The National Bank of Greece completed the sale of its Albanian subsidiary to American Bank of Investments in July 2018. As at 30 June 2018, the National Bank of Greece reported the results for its Albanian subsidiary on a separate balance sheet.

(2) As at 31 July 2018.

(3) In May 2018, Veneto Banca was acquired by Intesa Sanpaolo SpA. As at 30 June 2018, Veneto Banca reported the results for its Albanian subsidiary on a separate balance sheet.

The following table sets forth the aggregate financial position of banks in Albania as at the dates indicated.

Aggregate Financial Position of Banks

	As at 31 December					As at 30 June
	2013	2014	2015	2016	2017	2018
	(ALL millions)					
Total Assets	**1,234,320.9**	**1,293,720.9**	**1,317,843.1**	**1,407,285.9**	**1,445,329.8**	**1,426,444.9**
Treasury and interbank transactions	401,391.7	409,462.0	448,619.5	462,435.3	482,914.3	467,065.6
Operations with customers (gross)	563,099.6	591,299.5	582,190.0	596,864.7	597,793.5	578,775.2
Securities transactions	302,410.5	327,792.1	307,608.2	368,362.2	357,087.9	368,151.6
Provisions	(88,027.3)	(92,906.4)	(76,590.8)	(79,021.9)	(58,214.9)	(52,495.2)
Other assets	25,450.9	28,996.8	29,026.8	32,115.5	37,569.2	35,749.3
Fixed assets	18,597.7	18,291.5	17,337.8	17,591.7	19,829.9	19,502.1
Accrued interests	11,397.7	10,785.4	9,651.5	8,938.3	8,349.8	9,696.2
Total assets denominated in foreign currency	*696,171.7*	*730,161.9*	*751,146.9*	*816,216.1*	*818,444.7*	*787,367.2*
Total assets of non-residents	*285,709.5*	*312,800.2*	*326,051.0*	*377,067.2*	*381,253.9*	*384,441.5*
Total Liabilities	**1,234,320.9**	**1,293,720.9**	**1,317,843.1**	**1,407,285.9**	**1,445,329.8**	**1,426,444.9**
Treasury and interbank transactions	67,835.3	64,559.6	49,364.2	62,407.9	76,701.4	72,981.2
Operations with customers (gross)	1,013,522.2	1,064,661.2	1,094,666.2	1,153,665.1	1,162,225.9	1,142,403.2
Securities transactions	667.1	5,925.2	683.7	6,205.8	8,429.7	11,535.7
Other liabilities	9,955.1	11,981.2	9,401.3	13,180.4	15,026.7	15,151.8
Permanent resources	129,892.0	139,248.6	157,706.5	167,377.4	179,079.2	180,060.4
Accrued interests	12,449.2	7,975.0	6,021.2	4,449.3	3,867.0	4,312.6
Total liabilities denominated in foreign currency	*651,740.9*	*677,533.5*	*704,484.5*	*768,174.9*	*784,095.4*	*757,423.9*
Total liabilities of non-residents	*91,469.3*	*93,740.1*	*79,473.0*	*84,317.8*	*87,501.6*	*86,249.7*

Source: The Bank of Albania

The following table sets forth the composition of deposits with all domestically operating banks as at the dates indicated.

Banking Sector Deposit Portfolio

	As at 31 December					As at 30 June
	2013	2014	2015	2016	2017	2018
	(ALL millions)					
Local currency deposits	**494,279.5**	**504,691.1**	**492,352.7**	**487,535.3**	**473,663.8**	**459,774.9**
Current account and sight deposits	96,983.9	135,656.1	153,505.5	186,023.6	196,313.9	195,560.0
Local government deposits	*1,305.0*	*2,047.5*	*1,473.8*	*1,907.5*	*1,344.4*	*1,260.7*
Public non-financial corporations deposits	*6,108.2*	*9,799.5*	*8,329.0*	*6,786.0*	*8,656.7*	*9,285.6*
Other financial corporations deposits	*937.0*	*1,919.8*	*1,979.5*	*2,071.0*	*2,524.8*	*2,460.5*
Other non-financial corporations deposits	*24,244.0*	*38,198.6*	*39,848.3*	*46,015.0*	*48,979.3*	*48,724.5*
Other resident sectors deposits	*64,389.7*	*83,690.6*	*101,874.9*	*129,208.1*	*134,808.7*	*133,828.8*
Time deposits	397,295.6	369,035.0	338,847.2	301,511.7	277,349.9	264,214.9
Local government deposits	*57.1*	*7.8*	*29.9*	*18.9*	*15.2*	*13.0*
Public non-financial corporations deposits	*1,257.8*	*1,167.9*	*793.0*	*976.8*	*705.2*	*1,499.5*
Other financial corporations deposits	*2,556.5*	*1,730.1*	*5,575.9*	*7,553.4*	*9,282.1*	*4,997.9*
Other non-financial corporations deposits	*14,523.4*	*11,772.0*	*8,723.4*	*6,502.2*	*9,062.4*	*8,873.7*
Other resident sectors deposits	*378,900.8*	*354,357.3*	*323,725.0*	*286,460.4*	*258,285.1*	*248,830.9*
Foreign currency deposits	**455,808.8**	**472,729.6**	**493,221.2**	**526,511.2**	**528,006.8**	**513,643.1**
Current account and sight deposits	109,627.6	147,856.9	193,918.3	250,122.0	267,413.0	267,009.7
Local government deposits	*372.6*	*231.3*	*209.5*	*366.1*	*139,8*	*64.5*
Public non-financial corporations deposits	*1,972.2*	*4,104.4*	*3,444.2*	*2,999.4*	*2,086.3*	*1,523.2*
Other financial corporations deposits	*982.3*	*1,733.2*	*2,797.1*	*1,815.4*	*3,756.8*	*3,220.9*
Other non-financial corporations deposits	*35,856.9*	*44,806.0*	*52,976.4*	*73,326.4*	*74,187.3*	*74,646.8*
Other resident sectors deposits	*70,434.6*	*96,982.0*	*134,491.1*	*171,614.8*	*187,242.7*	*187,554.3*
Time deposits	346,181.2	324,872.7	299,302.9	276,389.2	260,593.8	246,633.4
Local government deposits	—	—	—	—	—	—
Public non-financial corporations deposits	*2,514.0*	*2,995.2*	*1,971.5*	*2,391.9*	*1,543.7*	*1,773.1*
Other financial corporations deposits	*5,690.8*	*3,139.7*	*4,260.2*	*3,698.7*	*3,336.9*	*3,089.5*
Other non-financial corporations deposits	*13,516.4*	*11,028.2*	*11,697.2*	*11,005.7*	*10,297.9*	*11,045.4*
Other resident sectors deposits	*324,460.1*	*307,709.6*	*281,374.0*	*259,292.9*	*245,415.2*	*230,725.4*

Source: The Bank of Albania

As at 30 June 2018, 56.5% of the total banking sector loan portfolio was denominated in currencies other than Lek, primarily in Euros (which accounted for 46.4% of total loans) and, to a lesser extent, U.S. Dollars. The high Euroisation of the banking sector has increased the banking sector's vulnerability. Although the ratio of foreign currency loans to total loans has decreased since a peak of 72.0% in 2007, un-hedged loans account for 43% of total foreign currency loans and 24% of the total loans portfolio. The Bank of Albania has adopted a de-Euroisation strategy. See "—*Monetary Policy*".

The banking sector's overall profit has been maintained at consistent levels in recent years. As at 30 June 2018 and 30 June 2017, respectively, the banking sector's overall profit was approximately ALL 11 billion. Overall credit growth remains low, but lending growth in Lek remains stable. Annual deposit growth rate remained positive, but declined to 0.7% in June 2018, as compared to 3.5% in June 2017. The significant appreciation of the Lek against the Euro during the six months ended 30 June 2018 has reduced the reported value of several banking sector balance sheet items

The Albanian banking sector remains well-capitalised and liquid. The capital adequacy ratio was 17.9% as at 30 June 2018, as compared to the required minimum level of 12.0%. Liquid assets as a percentage of total assets were 32.2% as at 30 June 2018. The capital adequacy of the banking sector is sufficient to cover for a "worse case" scenario that combines slower economic growth, a higher level of depreciation of the Lek and a higher level of NPLs in the banking sector.

Following the Greek financial crisis, in light of concerns relating to the stability of the Greek financial sector, the three Greek-owned banks in Albania were required to comply with tighter capital adequacy requirements of 14% for one bank and 15% for the other two banks. These tighter capital adequacy requirements remain in place. As at 30 June 2018, each of the three banks was in compliance with these requirements. In addition, Greek-owned banks in Albania require the approval of the Bank of Albania to pay dividends to their Greek parent companies. Greek banks accounted for 13.1%, 12.6% and 12.8% of total banking system assets and 13.2%, 13.0% and 12.7% of the total banking system deposits as at 31 December 2016, 31 December 2017 and 30 June 2018, respectively.

Non-Performing Loans

Following the global financial crisis and the European sovereign debt crisis, Albania experienced a contraction in the inflow of foreign currency as a result of a decline in exports, reduced FDI and declining remittances from Albanians working abroad, although recently higher exports have offset lower remittances. As a result, lending growth began to decelerate sharply, reflecting deleveraging measures from parent banking groups in the Eurozone, a slowdown in Albanian economic growth and higher asset quality risk requirements for banks. The quality of the banking sector loan portfolio started to deteriorate and NPLs reached a high of close to 24% of the banking sector loan portfolio in September 2014, although NPL levels have since been on a declining trend.

The Interinstitutional Action Plan, which sets out specific tasks for the Bank of Albania, banking industry and the Government aimed at addressing NPLs, was adopted in 2015. Reform measures taken by the Bank of Albania in line with this action plan include: (i) the introduction of regulatory measures requiring mandatory write-offs of NPLs classified in the "loss" category for more than three years from January 2015; and (ii) reforms to speed up collateral execution. Banks operating in Albania are also required to apply more conservative provisioning requirements in respect of NPLs than that required under International Financial Reporting Standards, which results in higher NPL coverage ratios.

In line with the Interinstitutional Action Plan, the Assembly approved a new insolvency law aimed at facilitating the restructuring of private balance sheets, which entered into force on 22 May 2016, and made amendments to the Civil Procedure Code and the Law on Securing Charges to improve the process of loan collection, which entered into force on 5 May 2017. Such reform measures provide, *inter alia*, for priority to secured creditors in insolvency proceedings, as well as the payment of success fees to bailiffs. As a result of these reforms, the quality of the banking sector loan portfolio has improved, and NPLs decreased to 13.3% of the banking sector loan portfolio as at 30 June 2018, which, in turn, decreased credit risk. Provisions for credit risk, which covered 71.7% of NPLs or 9.5% of total loans as at 31 December 2017, decreased to 66.4% of NPLs and 8.8% of total loans as at 30 June 2018.

Despite these positive developments, the Bank of Albania is working to further reduce the NPL ratio and intends to introduce an out-of court restructuring framework to assist the restructuring of large borrowers. The Bank of Albania has set a target to reduce the NPL ratio to below 10% by 2020. See "*Risk Factors—Risks relating to Albania—The Albanian banking sector has a high level of non-performing loans, as well as significant lending in foreign currency*".

Bank Resolution and Resolution Fund

In July 2017, the Law "On the recovery and resolution of Banks in the Republic of Albania" was approved, which identified the Bank of Albania as the resolution authority in respect of failing banks and bank insolvencies.

In its capacity as resolution authority, the Bank of Albania is responsible for: (i) compiling the rules for the various methods of resolution; (ii) preparing resolution plans; and (iii) establishing a resolution fund to implement the resolution tools available to the Bank of Albania. In March 2017, the Bank of Albania established a Resolution Department as the responsible unit to accomplish the Bank of Albania's mandate with respect to resolution activities; regulations setting out the main functions of the Resolution Fund were adopted in October 2017.

In October 2017, the Bank of Albania adopted regulations establishing the resolution fund and setting out the procedures regarding the contributions to, and management of, the fund. The target funding level for the resolution fund is 0.5% of total liabilities of the banking sector (currently ALL 6.3 billion), calculated as the difference between the assets and capital of all banks licenced in Albania, to be reached by 2027. Banks in Albania pay annual contributions to the fund in line with the law and methodology of calculation established by the Bank of Albania. In January 2018, the first contributions to the resolution fund were paid, in proportion to the share of each bank in the liabilities of the banking sector. Total contributions to the resolution fund for 2018 have been set at ALL 632 million. The level of the target fund and each bank's contribution will be reviewed and updated on a periodic basis. The resolution fund may also benefit from extraordinary contributions of banks, loans, subsidies and donations. The resolution fund is managed by the Deposit Insurance Agency.

The resolution fund may be used to guarantee the assets or the liabilities of banks under resolution, provide bridge financing to banks and asset management companies, provide liquidity to banks under resolution, purchase assets of banks under resolution, contribute to capital and ensure other necessary funds to provide bridge financing to banks or asset management companies, compensate banks under resolution for uncovered losses arising due to the exclusion of eligible liabilities of certain creditors arising from the application of the bail-in tool, and cover the costs for administration of the resolution fund.

Credit Bureau

The Albanian Association of Banks (the "**AAB**") has been working with the EBRD in connection with the establishment of a private credit bureau in Albania to facilitate and establish appropriate infrastructure for credit scoring. The establishment of a credit bureau is expected to assist with the reduction of NPLs in line with the Interinstitutional Action Plan (see "*—Non-Performing Loans*"). Following the completion of a feasibility study, international and local consultants have been selected to assist the AAB in the first phase of establishing the credit bureau, including: (i) raising awareness of the credit bureau among all stakeholders; (ii) identifying and working with the relevant authorities to establish the appropriate legislative and regulatory framework for the credit bureau; (iii) identifying the remit of the credit bureau and preparing bid documents for potential technical providers; and (iv) recommending an institutional and organisational development plan for the credit bureau. Work in connection with this first phase is expected to begin in October 2018.

Banking Supervision and Regulation

Banking supervision in Albania is carried out by the Bank of Albania pursuant to the Bank of Albania Law. As the supervisory authority, the Bank of Albania aims to safeguard the soundness and stability of the banking and financial system and to protect depositors. The three main functions of supervision consist of licensing financial entities, regulating their activities and maintaining control of and monitoring their activities. In addition, the Bank of Albania acts as banker and advisor to, and fiscal agent of, the Government, in addition to promoting the normal functioning of payment systems.

Government policies in the banking sector focus on reviving credit growth and reducing NPLs. In 2014 and 2015, the Bank of Albania's supervision of the banking sector mainly focused on monitoring of banks' resilience to risks in order to maintain adequate capital and liquidity positions and, in turn, thereby ensuring the stability of the banking system. The overall supervisory process and on-site examinations have emphasised the importance of enhanced governance and risk administration, with a focus on the fastest-growing segments of the banking system. In January 2015, the Supervisory Department of the Bank of Albania adopted the new Supervisory Policy and Risk Assessment System ("**RAS**"). The RAS is broadly consistent with the systems used by other European banks and aims to strengthen the supervisory process and achieve a more comprehensive treatment of the full range of risks assumed by the banking system. See "*The Albanian Banking Sector—Non-Performing Loans*".

The new mandatory guideline of the Supervisory Council of the Bank of Albania "On Recovery Plans", which was approved by Decision № 11 of 26 February 2014, determines the core principles and the supervisory requirements relating to the structure and contents of recovery plans and reporting requirements for banks. According to this guideline, banks were required to submit their initial recovery plans to the Bank of Albania in accordance with its requirements by 30 June 2015. All banks operating in Albania complied with this requirement.

The Bank of Albania has a relatively-high level of compliance with the Basel Core Principles for Effective Banking Supervision. The Bank of Albania has continued the further implementation of the supervisory regulatory framework in line with EU directives and Basel Committee recommendations, taking into consideration developments in the Albanian banking system. In 2017, the Bank of Albania issued guidelines "On the Internal Capital Adequacy Assessment Process" ("**ICAAP**"). These guidelines were prepared in accordance with Basel II Pillar 2 requirement and set out a framework for dealing with systemic risk, pension risk, concentration risk, strategic risk, reputational risk, liquidity risk and legal risk. ICAAP aims to establish an objective risk profile for banks and improve the risk-based supervision process. It includes certain criteria for the establishment of an internal process by banks to assess risks that are not covered by the existing regulation on capital adequacy and identifies the core requirements to assess additional risks and calculate additional capital to cover these risks based on the bank's risk profile and its strategies. The Bank of Albania has implemented risk-based supervision that envisages continuous supervision of banks through the combination of on-site inspections and off-site monitoring. The inspection cycle is scheduled based on the systemic importance of banks, their complexity and risk profile. The Bank of Albania also periodically conducts a detailed risk assessment of each bank and is preparing a Supervisory Review and Evaluation ("**SREP**") framework based on the European Banking Authority Guidelines on Common procedures and Methodologies for SREP.

The Bank of Albania is preparing the regulatory framework for the approximation of Basel III supervisory practices for the calculation of liquidity. The regulatory framework, which has been drafted in compliance with EU Directives, has been prepared and a structure to consult banks on the calculation of the liquidity coverage ratio ("**LCR**") prior to the LCR coming into effect has been established. This consultation exercise aims to permit the early identification of problems in the interpretation and prior assessment of banks' position against the LCR. This process is expected to be completed by the end of 2018.

The Supervisory Council has focused on ensuring that the regulatory framework and supervision methods are similar to those of EU Countries. The medium-term development strategy of the Bank of Albania for the period 2018 to 2020, which was approved on 22 November 2017, includes meeting the quantitative standards of international methodologies and EU legislation and complying with quality criteria, according to the requirements of the European Statistics Code of Practice and international standards on data quality, as core objectives. Further regulatory changes in line with this objective are expected by the end of 2018, including in relation to: (i) bank governance structures; (ii) remuneration policies; (iii) compliance functions; (iv) audit functions; and (v) bank steering councils and committees. The Bank of Albania has also announced its intention to seek to strengthen cooperation with national and international regulatory authorities.

See also "*—The Albanian Banking Sector—Bank Resolution and Resolution Fund*".

Macro-prudential Policy

On 2 August 2017, the Supervisory Council approved the Bank of Albania's macro-prudential policy strategy. Under this strategy, the Bank of Albania has assumed the role of primary authority in implementing macro-prudential policy in Albania. The macro-prudential policy aims to stabilise the entire financial system by preventing and mitigating systemic risks and strengthening its resistance. The strategy provides a general operational framework for the implementation of this policy. The regulatory basis for the adoption of all capital buffers required for the implementation of the strategy has been prepared in line with European Systemic Risk Board recommendations and EU Directives and is currently undergoing a consultation process with the banking industry. The strategy aims to: (i) link the final objective of the macro-prudential policy with intermediate objectives and macro-prudential instruments; (ii) establish a core framework for the implementation of macro-prudential instruments, including indicators measuring systemic risk, in order to guide decisions related to the implementation, deactivation or calibration of macro-prudential instruments; and (iii) explain decision-making and inter-institutional and public communication processes at the Bank of Albania in relation to the macro-prudential policy.

Deposit Insurance

In 2002, the Financial Services Volunteer Corps ("**FSVC**") played a pivotal role in implementing the law on Deposit Insurance by providing highly-skilled volunteer experts to launch the Albanian Deposit Insurance Agency ("**ADIA**"). ADIA reports to the Assembly, the Council of Ministers and the Bank of Albania. ADIA is a member of the International Association of Deposit Insurers and European Forum of Deposit Insurers. ADIA is authorised to insure and compensate deposits of individuals, legal persons and small- and medium-enterprises in all banks and savings and credit associations ("**SCAs**") operating in Albania. Membership in the deposit insurance scheme is obligatory for all deposit collecting institutions licensed by the Bank of Albania.

As part of the Financial Sector Development Programme ("**FSDP**"), which began in 2011 and is funded by the United States Agency for International Development via the Volunteers for Economic Growth Alliance, FSVC is continuing to support the ADIA mandate to collect annual deposit insurance premiums, manage insurance funds and reimburse insured deposits. The quarterly insurance premium for banking institutions is calculated as 0.1% of the arithmetic average balance of the insured deposits on the last day of each month in the previous quarter.

Albania's deposit insurance system provides coverage for deposits of natural persons up to ALL 2.5 million for bank depositors and ALL 2.0 million for depositors in SCAs, covering 60% of total system deposits and 95% of all depositors as at 30 June 2018. ADIA was assigned responsibility for administering the resolution fund in December 2016.

Anti-Money Laundering, Terrorism Financing, Organised Crime and Anti-Corruption Regulations

Albania's legal regime for the prevention of money laundering and terrorism financing comprises two main pieces of legislation. In 2008, Law № 9917 of 19 May 2008 "On the prevention of money laundering and fight against terrorism financing" (the "**AML/CFT law**") established a framework for the prevention of money laundering and the financing of terrorism. In 2013, Law № 157/2013 "On the measures against terrorism financing", which was enacted in line with the relevant resolutions of the UN Security Council and other international agreements to which Albania is a party, set forth measures allowing the freezing and seizing of funds and properties of activities and individuals who support the financing of terrorism.

The Co-ordination Committee for the Fight Against Money Laundering (the "**CCFML**") is responsible for planning state AML/CFT policy. The CCFML is chaired by the Prime Minister and also includes the Minister of Interior, the Minister of Justice, the General Prosecutor, the Minister of Finance and Economy and the Governor of the Bank of Albania. New regulations for the functioning of the CCFML were passed in 2017, which, *inter alia*, task the CCFML with approving national risk assessments ("**NRAs**") and any related action plans. A task force, including representatives of Government ministries and the policy has also been established to investigate and fight organised crime.

The General Directorate for the Prevention of Money Laundering (the "**GDPML**"), the Bank of Albania's financial intelligence unit (and which is also known as the Financial Intelligence Unit), is responsible for the collection, analysis and dissemination of information to law enforcement agencies in relation to potential money laundering and terrorism financing activities. GDPML also acts as a supplementary supervisory authority for monitoring the compliance of reporting entities with their legal obligations under the AML/CFT law. Banks operating in Albania report to both the GDPML and the Bank of Albania for AML/CFT compliance matters.

The following table sets forth data on the number of suspicious activity reports ("**SARs**") submitted to the GDPML for the years indicated.

Suspicious Activity Reports

	For the year ended 31 December				
	2013	**2014**	**2015**	**2016**	**2017**
SARs	558	1,230	1,319	1,292	1,384

The following table sets forth data on the number of GDPML cases referred to the law enforcement for the years indicated.

GDPML Cases Referred to Law Enforcement

	For the year ended 31 December				
	2013	**2014**	**2015**	**2016**	**2017**
Cases referred to State Police (only)	248	314	281	291	270
Cases referred to Prosecutor	35	148	120	120	131
Total	**283**	**462**	**401**	**411**	**401**

SARs are submitted to GDPML by the reporting entities. In 2017, the number of SARs referred to the GDPML increased to 1,384 from 558 SARs in 2013, reflecting an increase of 148.0%. From these SARs, the number of cases referred to the State Police or Prosecutor increased to 401 in 2017, as compared to 283 in 2013, reflecting an increase of 41.7%. A portion of those cases were accompanied by temporary freezing orders (for a period of 72 hours) in order to prevent the alienation of the proceeds suspected to be subject to the laundering process or those suspected to be used in the financing of terrorism. Referrals are generally followed by a court order for preventive seizures.

The following table sets forth data on the number of freezing orders and amounts frozen and seized for the years indicated.

Freezing Amounts Frozen by the GDPML and Amounts Seized by the Magistrates

	Number of Freezing Orders	**Total Amounts Frozen by the GDPML**	**Total Amounts Seized by the Magistrates**
		(€)	
2013	15	881,670	213,500
2014	65	18,183,760	13,967,770
2015	47	16,278,080	11,266,941
2016	61	28,772,733	8,129,000
2017	52	11,263,587	9,096,233
Total	**240**	**75,379,830**	**42,673,444**

Source: Ministry of Finance and Economy

The following table sets forth data regarding the number of persons convicted of money laundering offences for the years indicated.

Convictions for Money Laundering Offences

	Judgments at Courts of First Instance	**Judgments at Appellate Courts**
2012.............................	1	0
2013.............................	1	2
2014.............................	6	0
2015.............................	3	8
2016.............................	8	4
2017.............................	N/A	N/A

Source: Ministry of Finance and Economy

In recent years, through enacting domestic legislation and partnering with international organisations and the EU, Albania has achieved a number of milestones in combating money laundering and terrorist financing, including:

- in March 2011, the amendment of the law "On the prevention of money laundering and financing of terrorism";
- in February 2012, the carrying out, with the recommendation of the Financial Action Task Force ("**FAFT**"), and completion of a risk assessment regarding exposure to non-profits organisations in Albania with regard to the financing of terrorism;
- in April 2013, the completion, in collaboration with the EU, of the "Support for the structures of the fight against money laundering and the investigation structures of financial crimes in Albania" project;
- in October 2013, the adoption by the Assembly of the law "On the measures against financing of terrorism"; and
- in February 2015, the removal by FAFT of Albania from the list of the countries under on-going monitoring for money laundering and the financing of terrorism.

The FATF's removal of Albania from the list of countries subject to the FAFT's monitoring process under its on-going AML/CFT compliance process recognises Albania's significant progress in addressing its strategic AML/CFT deficiencies. As it works to improve its AML/CFT regime, Albania will continue working with the FATF regional body.

In October 2012, the first NRA of Money Laundering and Financing of Terrorism was completed. In June 2015, the NRA was reviewed. The NRA findings suggested that the Government's adaptation of international standards and best practices has helped to establish a more effective system to deter money laundering and terrorism financing, although some sectors require continued evaluation. The key findings of the NRA were as follows:

- the detection of suspected instances of money laundering and terrorism financing is at a good standard, but the efficiency of investigations needs improvement, such as by making timely submissions of letters to foreign judicial authorities to avoid suspensions and closures of criminal investigations;
- the investigation of standalone money laundering cases remain at an elementary level;
- the foreign product of crime, which is suspected to derive mainly from drug trafficking committed abroad, is the main risk; and
- the internal product of crime comes from tax and customs offences, such as smuggling, concealment of income and VAT fraud, in addition to drug-related crimes.

A new process of NRA revision is expected to be completed in 2019.

In 2017, in addition to analysis of suspicious cases, supervision of reporting entities, exchange of information with partner financial intelligence units and law enforcement bodies, which comprises the GDPML's core activities, GDPML also participated in a number of other important initiatives and projects relating to the fight against money laundering and corruption, including:

- *Preparing and participating in the evaluation by the Council of Europe MONEYVAL Committee*; The Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism ("**MONEYVAL**") is a monitoring body of the Council of Europe tasked with assessing compliance with AML/CFT international standards (including FAFT recommendations, UN conventions and Council of Europe conventions) and the effectiveness of their implementation, as well as making recommendations to national authorities in respect of their AML/CFT systems. Albania, as a member of the MONEYVAL committee is in the process of being evaluated by MONEYVAL. This evaluation began in 2016 and will be ongoing until the adoption of the final report by the end of 2018. The evaluation will serve as a reference point for AML/CFT matters for the EU, U.S. and other international bodies. The GDPML is acting as the co-ordinating institution for this evaluation. In response to the findings of the MONEYVAL evaluation shared with Albanian authorities, the CCFML has approved an action plan to respond to MONEYVAL's recommendations.

- *Assisting with Judicial Reform*: The GDPML is involved in performing on-going verification and checks for members of the judiciary and their family members in connection with the recently introduced vetting process. See "*The Republic of Albania—Government Structure and Recent Developments—Political System—Judicial Reform*". In 2017, the GDPML conducted verification checks in respect of approximately 3,000 prosecutors, judges and their family members.

- *Task Force Participation*: The GDPML has, and is continuing, to participate in several task forces focusing on the fight against organised crime and narcotics.

In further support of its domestic anti-money laundering and anti-terrorist financing regime, Albania has signed and ratified a number of international conventions related to anti-terrorism financing and anti-money laundering, including: the Vienna Convention (ratified on 26 December 2000), the Palermo Convention (ratified on 7 November 2002); the Merida Convention Against Corruption (ratified on 25 May 2006); the European Council Convention "On the search, seizure and confiscation of proceeds of crime and terrorism financing" (the so-called "Warsaw Convention") (ratified on 27 November 2006); and the European Council Convention "For the protection of terrorism" (ratified on 20 November 2006).

Albanian Financial Supervisory Authority

The AFSA was established in October 2006 to regulate and supervise non-banking financial markets in Albania. The AFSA is an independent public institution, accountable to the Assembly.

The AFSA's main functions are the regulation and supervision of:

- the insurance market and its activities, which includes all insurance, reinsurance and intermediary activities, as well as operations that stem from such activities;

- the securities market and its activities, which includes the activity of entities linked with securities investments and entities that operate in this market; and

- the private pension funds market and its activities, which includes all private pension fund activities provided by entities that operate in this market.

In 2014, changes to the law regulating AFSA were introduced to set out in law the independence of the AFSA in financial and governance matters.

Capital Markets Legislation

Albania has enacted a body of capital markets legislation to encourage the orderly running of the capital markets in Albania. This legislation includes (i) Law № 9879 of 21 February 2008 "On Securities", which is the general law identifying and governing issuance, trading, registration and securities transactions; (ii) Law № 10158 of 15 October 2009 "On Corporate and local Government bonds", which relates to local government and corporate bond issuances; (iii) Law № 10198 of 10 December 2009 "On Collective Investment Undertakings", as amended in 2016 by Law No 36 of 31 March 2016, which regulates the establishment and issuances of units and other matters relating to collective investment undertakings, and (iv) Law № 10 236 of 18 February 2010 "On takeover of companies with public offer", which regulates takeovers of publicly-listed companies, primarily in line with EU regulations.

The AFSA is in the process of preparing a draft law on securities and a draft law on collective investment undertakings, in line with AFSA's capital markets development project, which aims to update the regulatory and legislative framework of the capital market in Albania in line with market developments, as well to promote new capital market developments. The new laws are also being drafted in compliance with EU directives.

Capital Market

The capital market in Albania is generally considered to be small and underdeveloped. In recent years, however, this market has shown higher growth than in previous years due to an expansion of investment funds. The investment funds industry in Albania emerged in 2012 with the establishment of two investment funds, one operating in Lek and the other in Euro, administered by one management company. In 2016, the AFSA approved the establishment of a second management company to administer the assets of collective investment undertakings and pensions funds. A third investment fund began operating in August 2016. As at 31 December 2017, the three investment funds accounted for 69.2% of the total markets supervised by the AFSA. With total net assets of ALL 72.7 billion as at 31 December 2017 (11.4 % higher than as at 31 December 2016) and almost 31,320 members (a 7.0% increase from 31 December 2016), the investment funds market is the second largest financial market in Albania, after the banking market. The assets of the funds operating in Lek are mainly invested in Government securities issued in Lek, while the assets of the other funds are mainly invested in debt instruments dominated in Euros issued by the Government, the governments of other European countries, foreign corporations and investment funds. In 2018, the AFSA approved the licensing of a fourth management company for collective investment undertakings, which is expected to manage an investment fund investing in foreign equities.

The AFSA is the exclusive regulator of the capital market in Albania. Until 2012, the only organised securities market in Albania had been the Tirana Stock Exchange ("**TSE**"), which was founded in 1996. At the end of 2014, the Ministry of Finance and Economy decided to close the TSE, which had not been functioning for 12 years. In 2017, the AFSA approved the licensing of the Albanian Securities Exchange ("**ALSE**"), the first Albanian securities exchange with private capital licensed in the country. Credins Bank s.a., American Bank of Investments and AK – Invest s.a. are shareholders of the ALSE. The ALSE opened on 22 February 2018, with trading limited to Government securities until February 2019. There are currently four participants on the ALSE. The ALSE has announced its intention, from February 2019, to permit the trading of other securities. During the period from 22 February 2018 to 30 June 2018, the ALSE's trading volume reached ALL 1,263,047,391.

As at 31 December 2017, there were 17 brokerage companies, 29 individual brokers, two investment advisory companies, three individual advisors, three tied agents and nine security custodians operating in the Albanian securities market.

Since the first issue in November 2011, the corporate bond market has been active. Corporate bonds are issued through private offerings, typically with fixed interest rates, long-term maturities and semi-annual coupons. The total amount of corporate bonds issued by financial institutions offered to investors from 2011 to 2017 was approximately €75 million, while the amount purchased was around €58 million. In the six months ended 30 June 2018, private placement transactions of corporate bonds were conducted by three issuers.

Government Securities Retail Market

The retail market for Government debt instruments (treasury bills and bonds) is an active securities market segment in Albania. The performance of the Government securities retail market can be followed on a daily basis on the Government Securities Retail Market (the "**GSRM**") section of the AFSA website. The GSRM platform provides daily updated information on transactions, quotes, prices and the performance of Government securities. All financial intermediaries (mainly banks) that have been licenced to operate in the Government securities retail market must disclose all the above-mentioned information on the GSRM platform. The platform also includes a historical database of such information.

The volume of secondary market Government securities in 2017 was dominated by transactions in short-term instruments (treasury bills), which represented 75.1% of total transactions in Government securities, while long-term instruments (primarily notes and treasury-bonds) represented 24.9%. In terms of the number of transactions, 98.1% of all transactions in the secondary market for Government securities were in treasury bills.

The following table sets forth certain statistical data relating to the Government Securities Retail Market for the periods indicated.

Government Securities Retail Market

	Value					Change			
	2013	**2014**	**2015**	**2016**	**2017**	**2013/ 2014**	**2014/ 2015**	**2015/ 2016**	**2016/ 2017**
			(ALL millions)				*(%)*		
Purchase in the primary market	**46,341**	**37,058**	**49,724**	**38,732.30**	**48,556**	(20.0)	**34.2**	**(22.1)**	**25.36**
Individuals	8,310	12,137	25,647	27,860.61	26,120	46.1	111.3	8.6	(6.25)
Legal Persons	38,031	24,921.36	24,077	10,871.69	22,437	(34.5)	(3.4)	(54.9)	106.38
Selling from financial intermediaries portfolio	**5,216**	**7,190**	**7,752**	**6,511.15**	**4,686**	37.8	**7.8**	**(16.0)**	**(28.04)**
Individuals	4,912	5,879	6,324	5,397.25	4,292	19.7	7.6	(14.7)	(20.48)
Legal Persons	304	1,311	1,428	1,113.90	394	329.9	8.9	(22.0)	(64.64)
Purchase from individuals prior to maturity date	**2,876**	**3,330**	**2,689**	**3,506.67**	**2,568**	15.8	**(19.3)**	**30.4**	**(26.75)**
Individuals	2,442	2,958	2,552	3,024.77	2,551	21.2	(13.2)	18.5	(15.65)
Legal Persons	434	372	136	482	17	(14.5)	(63.3)	253.3	(96.47)
Pledging of Government securities as collateral	104	**372**	**1,468**	**465**	**773**	255.5	**295.2**	(68.3)	**66.3**
Individuals	78	45	889	289	506	(42.1)	1,864.7	(67.5)	75.2
Legal Persons	26	326	579	176	267	1140.7	77.4	(69.0)	51.7
Payment of nominal value in maturity date	**16,954**	**11,952**	**12,288**	**19,534**	**24,046**	(29.5)	**2.8**	**59.0**	**23.1**
Individuals	14,696	10,675	9,547	18,365	22,944	(27.4)	(10.6)	92.4	24.9
Legal Persons	2,258	1,276	2,740	1,169	1,102	(43.5)	114.7	(57.3)	(5.8)

Source: AFSA

Pension Funds

The pension fund market in Albania is regulated by Law № 10197 of 10 December 2009 "On Voluntary Pension Funds", which sets the necessary standards in terms of regulating and supervising voluntary pension funds in compliance with the European Directives, OECD and International Organisation of Pension Supervisors principles. See "*—Albanian Financial Supervisory Authority*".

There are three voluntary private pension funds operating in the Albanian market, with total net assets as at 31 December 2017 of ALL 1.73 billion (€4.5 million). This market also experienced growth of 31% in 2017, as compared to 2016. The main reasons for the increase in pension fund assets are an increase in (i) the number of professional plans available, resulting in increases in membership and contributions, and (ii) assets as a result of investing in Government securities with longer-term maturities.

There were 20,947 members participating in the three pension funds as at 31 December 2017, representing an increase of 21%, as compared to 2016.

Pension fund assets are invested in long-term treasury bonds and bank deposits.

Insurance Market

The insurance industry in Albania is regulated by the AFSA. As at 31 December 2017, 11 insurance companies were operating in Albania, comprising eight non-life insurers and three life insurers, as well as thirteen licenced insurance brokerage firms, of which eight are non-life insurance brokerage firms, three are life insurance brokerage firms and two are life and non-life insurance brokerage firms. There are also three banks operating as life-and non-life insurance brokers. In 2017, total assets held by Albanian insurance companies amounted to ALL 30.6 billion, or 2.0% of nominal GDP. The investment portfolio of insurance companies accounted for 62.3% of total assets. As at 31 December 2017, bank deposits accounted for 32.8% of the total investment portfolio, followed by real estate investments of 9.9% and Government securities of 8.3% of the investment portfolio.

The gross written premiums of insurers in Albania were ALL 16,197 million for 2017, representing a 5.39% increase, as compared to 2016. In 2017, the number of issued insurance contracts was 1,261,238 million, reflecting a 12.0% increase, as compared to 2016. The market continued to be dominated in 2017 by non-life insurance products, which accounted for 92.1% of the total volume of written premiums. The life insurance market share represented 7.4% of total written premiums, while the reinsurance market share was 0.5%. Voluntary and compulsory insurance gross written premiums represented 38.5% and 61.5%, respectively, of total gross written premiums.

PUBLIC FINANCES

The Budget Process

Albania's current organic budget law, the "Law on the Management of the Budget System" (the "**Organic Budget Law**"), came into effect in 2009. The Organic Budget Law sets out the core principles and organisational structures of the budgetary system and is supported by the Constitution and laws regarding local government, public procurement, internal audit, public financial inspection and financial management and control. Part 13 of the Constitution includes provisions relating to a budgetary system composed of the state budget and local budgets. Since 2005, Albania has used an integrated planning system ("**IPS**"), which aims to promote coherence, effectiveness and harmonisation on strategic planning, public finance and policy monitoring. The Organic Budget Law was amended in June 2016 to include a number of fiscal rules aimed at reducing public debt and improving budgetary discipline. These amendments improved the budget programming process, including the development of performance-based budgeting, budgetary rules relating to public investment and a mechanism intended to limit the growth of public debt, the so called "debt-brake". See "—*Fiscal Policies and Budget Performance*".

Budgeting Process

The Government's fiscal year runs from 1 January to 31 December. The beginning of each budget year is preceded by a detailed IPS calendar with processes and respective deadlines, which is circulated by the Ministry of Finance and Economy. The IPS calendar is first approved by the Strategic Planning Committee, and later receives final approval from the Council of Ministers by September.

In January of each year, the Ministry of Finance and Economy prepares a three-year macro-economic and fiscal framework, which provides the basis for setting out the expenditure ceilings for each budgetary institution (*i.e.,* entities whose activities are financed by the central government budget) based on its policies and past performance. Within these ceilings, the budgetary institutions prepare their budget requests as part of the Medium Term Budget Programme ("**MTBP**") preparation process for the next three years.

On February 2018, the guidelines for the preparation of the MTBP (the "**Standard Guidelines**") were revised to bring them closer to current international best practice. Under the Standard Guidelines, the MTBP document is divided into two parts: (i) budget expenditures that finance existing policies and (ii) budget expenditures for new policy initiatives. The aim of this division is to preserve existing budgetary commitments and to finance new policies with any available fiscal space at a given point in time within the MTBP period. The Standard Guidelines also set out two phases for the MTBP preparation process: (i) the strategic phase (1 March - 30 April); and (ii) the technical Phase (10 July - 31 August). The aim of the strategic phase is to update the budget packages for the existing policies and new policy initiatives in accordance with the Government's policy priorities and the medium-term macro-economic and fiscal framework. The strategic phase aims to determine firm MTBP ceilings that are then utilised in the technical phase, in which budgetary institutions are primarily required to refine the details, expected output and related costs for the relevant budgetary items.

Budget submissions are submitted to the Ministry of Finance and Economy by 1 May of each year for the strategic phase and by 1 September of each year for the technical phase. The Ministry of Finance and Economy then analyses the compliance of the budget submissions with applicable Government ceilings and objectives and makes recommendations, which are included in a MTBP analysis report. This report is discussed with the ministries and then officially submitted to the ministries and central institutions.

The Ministry of Finance and Economy then prepares the final MTBP document and the annual budget law, which are initially submitted to the Strategic Planning Committee and Council of Ministers by 20 October of each year for review and approval, and then to the Assembly for final approval, by 1 November. In accordance with the Organic Budget Law, each annual budget must be approved by the end of November of the preceding fiscal year. If there is a delay and the budget is approved in December, the Ministry of Finance and Economy proceeds to allocate the minimum necessary expenses (such as salaries and other current expenditures) that would not exceed the respective actual amounts spent in the previous year.

After the approval of the annual budget law, the Minister of Finance and Economy updates the final MTBP document and makes it available to the budgetary institutions for budget management and monitoring purposes.

Following approval, the Ministry of Finance and Economy issues the budget implementation instruction in January. The budget implementation instruction establishes rules, procedures and deadlines for all budgetary institutions during the budget implementation process. The Ministry of Finance and Economy approves the initial breakdown of budgetary funds for each spending unit of the budgetary institutions and takes responsibility for ensuring that the breakdown of budgetary funds is reflected in the treasury system on time and in accordance with the budget implementation instruction.

Budget Monitoring and Reporting

During the budget year, each budgetary institution may submit requests (for example relating to new policies) to the Council of Ministers to reallocate funds among its own spending programmes, although the reallocation amount may not exceed 10% of the approved fund for that particular spending programme. According to the amended Organic Budget Law, at the end of each four-month period, all budgetary institutions are required to submit to the Ministry of Finance and Economy periodic monitoring reports regarding the status and progress of their budgetary performance in terms of policy and financial achievements.

The Ministry of Finance and Economy analyses the reports and makes recommendations for improvements to the respective budgetary institutions. The Ministry of Finance and Economy's first and second monitoring reports (for the periods January to April and May to August, respectively) provide feedback for the first and second phases of the MTBP. The Ministry of Finance and Economy's annual monitoring report serves as a basis for the new macro-economic and fiscal framework review.

According to the Organic Budget Law, by 31 May of each budget year, the Minister of Finance and Economy submits to the Council of Ministers an annual consolidated budget execution report for the year. In June of each year, the Council of Ministers approves and submits to the Assembly the consolidated annual budget implementation report.

This report includes:

- annual consolidated accounts for state financial transactions;
- a report on annual budget implementation against approved funds;
- a report on public debt and its composition;
- a report on the use of the reserve and contingency fund;
- information on the achievement of objectives, status of financial management and internal control and internal audit; and
- other financial statements required by the Board of Public Financial Internal Control ("**BPIFC**").

The consolidated annual budget implementation report is audited by the State Audit Office each year and published by the Ministry of Finance and Economy in June of each year. The State Audit Office certifies the annual consolidated accounts for state financial transactions and presents to the Assembly a comprehensive report on the previous fiscal year's budget implementation. The annual consolidated budget implementation report is approved by the Assembly in October of each budget year, and is published in the Official Gazette.

In addition, in June of each year, the Minister of Finance and Economy submits a mid-year report to the Council of Ministers on the implementation of the consolidated budget for the ongoing year, which is published on the Ministry of Finance and Economy's website. This report includes:

- an overall assessment of Albania's economic condition and of its macro-economic, fiscal and budgetary indicators, for the period from January to May of that year;
- an assessment of estimated macro-economic, fiscal and budgetary indicators for the remaining period of the year (from June to December);
- measures to be undertaken by the Government to meet forecasts regarding macro-economic, fiscal and budgetary indicators; and
- the Minister of Finance and Economy's proposals regarding any potential revisions to the budget.

Local government budget monitoring reports are also published on a periodic basis.

Amendments to the annual Budget Law may be made in the event of discrepancies or revised targets. Typically, the annual budget is revised at least once per year, as needed, to reflect actual results. The 2017 Budget Law was revised on two occasions, in August and November 2017, with the aim of directing unused budget resources towards specified investment projects and end of year bonuses for pensioners and vulnerable groups. To date, the 2018 Budget Law has been revised on one occasion, in August 2018, for the same reason.

Local Budgets

In 2017, Law № 68 of 27 April 2017 "On local self-government finances" (the "**Local Finance Law**") was adopted. The Local Finance Law, together with its implementing secondary legislation, is expected to provide a framework for local budget management and to promote fiscal and local financial autonomy through the provision of more sources of funding for local governments, as well as improving predictability, stability and transparency. The Local Finance Law also strengthens local public finance rules and improves fiscal discipline in accordance with the principles of the European Charter on Local Self-Government and the Constitution. The Local Finance Law increases the funds available for local government in development sectors, such as agriculture, forestry and roads, presents opportunities for local governments, improving the delivery of services to citizens and the general business climate. The Local Finance Law outlines local government financial resources from local government income, shared taxes or central Government assistance. In order to increase the sustainability of unconditional transfers, it is stipulated in the Local Finance Law that such transfers will not be less than 1% of the GDP estimated in macro-economic forecasts adopted by the Council of Ministers.

The Organic Budget Law and the Local Finance Law together set out the rules and procedures with regard to the interaction of national and local budgets. Through the budget preparation instructions issued for general Government units twice annually in February and July, the Ministry of Finance and Economy provides local government units with estimates for respective unconditional transfers from the central budget. Upon receiving these instructions, local government units start preparing their budget proposals by reconciling unconditional transfer estimates with their own revenue estimates. Local governments then submit their budget proposals to their respective councils for approval.

In addition to unconditional transfers, local government units are entitled to obtain conditional funds from central Government units for shared functions in sectors, such as civil registrations (*i.e.,* of births, marriages and deaths) and social protection, along with specific transfers for functions transferred by law after the administrative territorial reform of 2015. The Local Finance Law and Organic Budget Law also set out the principles and rules for each local government unit with regard to their right to obtain loans for financing investment projects.

The Law № 9869 of 4 February 2008 "On Local Borrowing" permits finance for local government investment programmes. It defines debt broadly to include any monetary obligation or liability created by a financing agreement, the issuance of securities or a guarantee to third parties. Each local government's long-term borrowing is subject to preliminary approval by the Minister of Finance and Economy in respect of its procedures, limits and effects. The Chairman of the local government units submits a copy of the budget implementation and monitoring reports to the respective Local Government Council.

Put in place in 2002, the unconditional transfer system is primarily a formula-based distribution system. Local governments may utilise the unconditional transfers according to their own priorities, including current operating expenditures and capital investments. The pool of unconditional transfers is allocated to the various local governments according to a multiple-step process, which takes into account factors such as geography, population, economy and infrastructure in allocating the funds.

The Local Government Council is responsible for approving, by special decision, the annual budgetary revenues and appropriations for the local government units and their special funds. Through its approval, the Council gives local governments the right to undertake expenditures in exercising their functions, as well as to borrow for investment projects.

Fiscal Policies and Budget Performance

The soundness of public finances is a key pillar of the Government's continuing economic reform programme, which aims to safeguard macro-economic stability and sustainability by strengthening the overall fiscal framework, creating mechanisms to ensure that forecasting is realistic and streamlining the MTBP preparation process. See "*—The Budget Process*".

EU Integration

Albania has adopted EU principles for good public finance management and fiscal prudence as expressed in the EU 2011 directive on budgeting. Albania's Public Finance Management Reform ("**PFMR**") aims to comply with this directive currently such that its provisions will be met upon Albania's accession to the EU.

IMF Programme

In 2017, Albania successfully completed a three-year programme with the IMF under the EFF, which permitted access to funds of SDR 295.4 million and programme disbursements in the form of direct budget support.

See "*Public Debt—Relationships with Multilateral Financial Institutions—International Monetary Fund*".

Medium Term Priorities

As part of the NSDI, which outlines Albania's long-term development priorities, Albania's Public Financial Management ("**PFM**") Strategy 2014 – 2020, which was developed with assistance from the World Bank and the EU, aims to achieve a better balanced and sustainable budget with a reduced debt ratio by implementing policies for stronger financial management and control and audit processes that link budget execution to Government policies. The PFM Strategy also aims to promote: (i) transparency; (ii) accountability; (iii) fiscal discipline; and (iv) efficiency in the management and use of public resources for improved service delivery and economic development.

In an attempt to address these aims, a number of key reforms were implemented between 2014 and 2017:

Amendments to the Organic Budget Law

Key amendments to the Organic Budget Law adopted in 2016 require each annual budget to:

- provide, subject to certain exceptions, for a public debt to GDP ratio that is lower than the estimated level of the previous year, until the debt level reaches and stays below a threshold of 45% of GDP; the forecast public debt to GDP ratio provided in the 2018 budget is 68.7%, as compared to the forecast public debt to GDP ratio in the 2017 budget of 71.5% and the actual 2017 public debt to GDP ratio of 70.1%.

- ensure that the GDP forecasts used for budget planning are not higher than those prepared by the IMF;

- introduce counter-cyclical fiscal policy and stabilising items to target an overall deficit of not more than 2% of GDP if real GDP is forecast to be at least 5% (subject to certain exceptions);

- target an annual budget deficit that does not exceed the annual capital expenditures approved in the budget law;

- include the total stock of state guarantees issued by the Government in full as part of the actual public debt's total stock for each budget year;

- include all foreign loans, borrowed during a budget year by each general government unit in the consolidated fiscal table of the general Government financing, as part of the budget deficit financing;

- have ceiling amounts (not exceeding 5% of tax revenues), which are approved by the Assembly as part of approval of the budget law, to cover all existing and new concessionaire/PPP projects;

- use specific deficit intra-annual targets or brakes during parliamentary election years.

Other key reforms

- For the first time in 2017, INSTAT prepared Government financial statistics data according to the requirements of the European System of National and Regional Accounts 2010 transmission programme.

- The Ministry of Finance and Economy, with IMF and World Bank support, has created, staffed and trained a Fiscal Risk Unit, which was fully staffed in October 2016. The work of the Fiscal Risk Unit to date has concentrated on identifying initial sources of fiscal risk.

- A Public Investment Management Department was re-established in the Ministry of Finance and Economy, which helps to prepare monthly monitoring reports based on financial and other data.

- Reforms in tax administration included the finalisation of the Tax Administration Information System, which updated and modernised the existing information system, as well as the adoption of online systems for filing tax returns and paying taxes.

- Changes to the Customs Code simplified customs rules and introduced a risk-based approach to customs controls. In 2016, the General Directorate of Customs unified a number of important rule rules and practices into a coherent set of guidelines in an attempt to eliminate procedural ambiguities in the customs system.

- The Directorate of Harmonisation of Financial Management and Control ("**DHFMC**") monitored the implementation of financial management and control in the Presidency and the Assembly. Aiming to strengthen the financial management and control implementation in the public sector, DHFMC organised a number of training workshops and published internal guidance.

The key remaining priorities over the medium-term include:

- increasing transparency and improving accountability mechanisms;

- strengthening compliance, with the objective of reducing corruption;

- strengthening Albania's institutional capacity to manage EU funds;

- strengthening technology and communications infrastructure (including the development of an IT database to gather information on companies, employees and banking transactions);

- tightening commitment control, controlling multi-year commitments and pre-commitments and enhancing the financial control system; and

- improving access to international finance.

Recent Budgets

2018 Consolidated Budget

The budget for 2018 was approved in November 2017, with a projected budget deficit-to-GDP ratio of 2.0%.

The 2018 budget aims to achieve:

- a relatively high level of public investment (5.2% of GDP), with capital expenditures focused on strategic projects in the roads, water supply, education, health and agriculture sectors. Investment in projects to increase agricultural production and to develop the agro-tourism industry has been identified as a strategic aim of the Government;

- continued financial support for structural reforms in the water supply, justice, public administration, public finance and administrative territories sectors; and

- continuing fiscal consolidation.

The following table sets out the budget for 2018, as compared to the actual results for 2017.

2018 Budget

	2017	2018(1)(2)
	(ALL millions)	
Revenues and Grants	**430,397**	**464,702**
Tax Revenue	398,629	424,445
Grants	11,085	14,500
Non-tax Revenue	20,683	25,757
Expenditures	**461,410**	**497,069**
Personnel Expenditures	72,642	77,855
Interest	31,904	41,500
Operational and Maintenance	43,441	46,327
Subsidies	2,310	2,090
Social Insurance Outlays	119,081	123,515
Local Budget Expenditure	46,487	46,221
Other Expenditures	23,357	22,300
Reserve Fund/Contingency	0	2,600
Capital Expenditures	68,455	86,691
Arrears	0	0
Other Transfers (Net Lending)	9,217	(1,000)
Expropriation Fund	1,450	0
Cash Balance	**(31,012)**	**(32,366)**

Source: Ministry of Finance and Economy

Notes:

(1) Budget as approved in November 2017 and subsequently amended in the supplemental budget approved in August 2018. No assurance can be given that the actual financial performance and condition will match the forecasts in the budget.

(2) For 2018, the Ministry of Finance and Economy's budgeted GDP figure of ALL 1,649,952 million has been used.

Revenues

Total revenues and grants for 2018 are budgeted to be ALL 464.7 billion, as compared to ALL 430.4 billion in 2017, representing an annual increase of 8.0%, primarily due to an expected increase in tax revenues. Tax revenues are budgeted to increase by 6.5% to ALL 424.4 billion for 2018, as compared to ALL 398.6 billion in 2017. This budgeted increase is primarily due to: (i) a 8.2% increase in tax revenue from tax offices and customs from ALL 293.4 billion in 2017 to ALL 317.6 billion in 2018, reflecting increases across the board in revenues from VAT, profit tax, excise tax, personal income tax, national taxes and customs duties; and (ii) an 1.8% increase in tax revenues from local government from ALL 18.4 billion in 2017 to ALL 18.7 billion in 2018, reflecting increases in revenues from property taxes and local taxes, which offset decreases in revenues from small business taxes.

Total grants for 2018 are budgeted to be ALL 14.5 billion, as compared to ALL 11.0 billion in 2017, representing an annual increase of 30.8%. This increase was primarily due to planned grants for specific investment projects, which are expected to be realised in 2018.

Non-tax revenues comprising mainly profit transfers from the Bank of Albania, the income of budgetary institutions, dividends, service fees and others are budgeted at ALL 25.8 billion in 2018, as compared to ALL 20.7 billion in 2017, representing an annual increase of 24.5%. This increase was primarily due to a 16.6% increase in income from budgetary institutions from ALL 13.6 billion in 2017 to ALL 15.9 billion in 2018.

Expenditures

Government expenditures are budgeted to increase by 7.7% to ALL 497.1 billion in 2018, as compared to ALL 461.4 billion in 2017. This increase is primarily due to: (i) a 7.2% increase in personnel expenditures from ALL 72.6 billion in 2017 to ALL 77.9 billion in 2018; (ii) a 30.1% increase in interest payments from ALL 31.9 billion in 2017 to ALL 41.5 billion in 2018; (iii) a 6.6% increase in operational and maintenance expenditures from ALL 43.4 billion in 2017 to 46.3 billion in 2018; (iv) a 26.2% increase in capital expenditures from ALL 68.5 billion in 2017 to ALL 86.4 billion in 2018; and (v) a 3.7% increase in social insurance outlays from ALL 119.1 billion in 2017 to ALL 123.5 billion in 2018.

2019 Budget

The 2019 budget preparation process has been underway since January 2018, as part of the MTPB 2019-2021 preparation process. All budget institutions have submitted their MTBP 2019-2021 requests, which have been analysed by the Ministry of Finance and Economy. The first draft of the MTBP for 2019-2021 was approved by the Council of Ministers in July 2018. Budget institutions submitted their second technical phase requests under the MTBP 2019-2021 by 31 August 2018 in accordance with the legislative deadline. The 2019 budget is expected to be submitted to the Council of Ministers by 15 October 2018 and to be approved by the Assembly by 30 November 2018.

2018 Interim Results

The following table sets forth Albania's actual fiscal results for the periods indicated.

Interim Results—For the six months ended 30 June(1)

	For the six months ended 30 June 2017	For the six months ended 30 June 2018
	(ALL millions)	
Revenues and Grants	**212,285**	**217,035**
Tax Revenues	196,177	202,251
Grants	3,592	1,726
Non-tax Revenues	12,516	13,058
Expenditures	**209,595**	**215,336**
Personnel Expenditures	34,981	36,520
Interest	14,290	15,384
Operational and Maintenance	18,273	18,522
Subsidies	845	479
Social Insurance Outlays	56,190	57,908
Local Budget Expenditure	23,541	25,990
Other Expenditures	11,041	9,721
Reserve Fund/Contingency	0.0	0.0
Capital Expenditures	26,846	30,488
Arrears	0	0
Other Transfers (Net Lending)	0.0	0.0
Cash Balance	**2,690**	**1,699**

Source: Ministry of Finance and Economy

Note:

(1) Results of interim period are not necessarily indicative of full year results.

Revenues

Total revenues and grants increased by 2.2% to ALL 217.0 billion in the six months ended 30 June 2018 from ALL 212.3 billion in the corresponding period in 2017, primarily due to: (i) a 3.1% increase in tax revenues (from ALL 196.2 billion in the six months ended 30 June 2017 to ALL 202.3 billion in the corresponding period in 2018); and (ii) a 4.3% increase in non-tax revenues (from ALL 12.5 billion in the six months ended 30 June 2017 to ALL 13.1 billion in the corresponding period in 2018). These increases were partially offset by a 51.9% decrease in grants over the same period. The increase in tax revenues in the six months ended 30 June 2018 was primarily due to an 11.6% increase in personal income tax (from ALL 15.6 billion in the six months ended 30 June 2017 to ALL 17.4 billion in the corresponding period in 2018) and a 1.6% increase in tax revenue from tax offices and customs (from ALL 143.3 billion in the six months ended 30 June 2017 to ALL 145.6 billion in the corresponding period in 2018), which were partially offset by a 0.4% decrease in revenues from local taxes and a 12.0% decrease in revenues from owner's in value-compensation, which comprises revenues from legalisation of illegally constructed properties provided as compensation to the legal owners of the land. The increase in non-tax revenues in January to June 2018 was primarily due to a 4.4% increase in income from budgetary institutions (from ALL 8.3 billion in January to June 2017 to ALL 8.6 billion in January to June 2018), which was partially offset by decreases in profit transfers from the Bank of Albania, dividends and tariffs on services.

Expenditures

Total expenditures increased by 2.8% to ALL 215.3 billion in the six months ended 30 June 2018 from ALL 209.5 billion in the corresponding period in 2017. This increase was primarily due to: (i) a 4.4% increase in personnel expenditures from ALL 35.0 billion in the six months ended 30 June 2017 to ALL 36.5 billion in the corresponding period in 2018; (ii) a 7.7% increase in interest payments from ALL 14.3 billion in the six months ended 30 June 2017 to ALL 15.4 billion in the corresponding period in 2018; (iii) a 3.1% increase in social insurance outlays from ALL 56.2 billion in the six months ended 30 June 2017 to ALL 57.9 billion in the corresponding period in 2018; (iv) a 10.4% increase in local budget expenditure from ALL 23.5 billion in the six months ended 30 June 2017 to ALL 26.0 billion in the corresponding period in 2018; and (v) a 13.0% increase in capital expenditures from ALL 26.8 billion in the six months ended 30 June 2017 to ALL 30.5 billion in the corresponding period in 2018.

The increase in capital expenditures in the six months ended 30 June 2018, as compared to the corresponding period in 2017, was primarily due to capital expenditures for a number of major infrastructure projects in 2018, including road construction projects in Arber and Thumanë - Vorë. See "*The Albanian Economy—Principal Sectors of the Economy—Transport and Infrastructure—Roads*".

The increase in local budget expenditures in the six months ended 30 June 2018, as compared to the corresponding period in 2017, was primarily due to increased revenues from own sources, increased unconditional transfers to local self-government units and budget growth for local governments, as a percentage of GDP, in 2018.

Budget execution for the six months ended 30 June 2018 resulted in an overall surplus of ALL 1.7 billion, as compared to an annual budgeted deficit of ALL 32.4 million.

Public Accounts

The following table sets forth an overview of the revenues, expenditure and overall balance of the budget sector public accounts for the periods indicated.

Overview of Government Fiscal Operations Budget Sector[1]

	2013	2014	2015	2016	2017
			(ALL millions)		
TOTAL REVENUE	**327,178**	**366,721**	**379,206**	**407,021**	**430,397**
Grants	**5,737**	**10,186**	**11,215**	**14,639**	**11,085**
Tax Revenue	**299,888**	**335,868**	**342,308**	**369,884**	**398,629**
From tax office and customs	229,031	253,413	258,882	275,780	293,386
V.A.T	111,940	123,730	125,783	131,390	139,541
Profit tax	15,119	21,479	24,968	29,151	31,645
Excise tax	38,151	40,894	39,027	41,896	45,105
Personal income tax	29,570	28,852	29,661	31,412	32,102
National taxes and others	28,454	32,606	33,647	35,794	38,502
Custom duties	5,797	5,852	5,796	6,137	6,492
Revenues from local government	10,825	12,447	11,700	14,951	18,447
Local taxes	2,454	3,678	5,746	4,678	4,879
Property tax (buildings)	1,975	1,709	3,921	0,598	0,296
Small business tax	6,396	7,060	2,033	9,675	13,273
Social insurance contributions.	60,033	70,008	71,726	79,153	86,795
Social insurance	51,064	61,493	60,148	66,688	73,999
Health insurance	7,410	8,199	9,595	10,820	11,602
Revenue for owners compensation	1,559	0,316	1,983	1,645	1,194
Non-tax revenue	**21,553**	**20,667**	**25,683**	**22,498**	**20,683**
Profit transferred from BOA	4,628	1,951	951	1,095	908
Budgetary institutions revenue	9,987	11,150	17,183	15,001	13,694
Dividend	943	1,387	528	83	178
Revenue from services tariffs	3,133	3,167	2,519	2,738	2,332
Other revenue	2,862	3,012	4,502	3,581	3,570
TOTAL EXPENDITURE	**394,118**	**438,849**	**437,408**	**433,697**	**461,410**
Current expenditures	**328,641**	**341,012**	**350,752**	**368,720**	**382,287**
Personnel expenditures	70,716	71,373	72,489	67,540	72,642
Wages	61,087	61,422	62,492	58,215	62,581
Social insurance contributions	9,629	9,951	9,997	9,325	10,061
Interest	43,335	40,075	38,643	36,259	31,904
Domestic	35,890	31,834	27,385	25,526	21,415
Foreign	7,445	8,241	11,258	10,733	10,489
Operational & maintenance	32,424	33,124	42,409	44,329	43,441
Subsidies	1,574	1,599	1,735	1,725	2,310
Social insurance outlays	127,644	136,336	141,166	152,591	162,146
Social insurance	95,598	102,794	107,309	114,276	119,081
Health insurance	30,147	32,225	32,695	34,796	39,090
Compensation in value to owners	1,899	1,317	1,162	3,519	3,974
Local budget	**29,787**	**32,985**	**34,066**	**43,580**	**46,487**
Other expenditures	**23,161**	**25,520**	**20,244**	**22,696**	**23,357**
Unemployment insurance benefits	0,800	0,912	0,615	0,691	0,346
Social assistance	19,370	22,849	17,662	20,026	20,714
Compensation for the politically persecuted	2,991	1,759	1,967	1,979	2,298
Reserve fund / contingency	—	—	—	—	—
Capital expenditures	**65,477**	**60,749**	**63,059**	**59,478**	**68,455**
Domestic financing	36,701	33,964	38,133	39,118	45,589
Foreign financing	28,776	26,785	24,926	20,360	22,278
Arrears	—	**33,919**	**17,597**	—	—
Infrastructure obligations	—	9,838	6,111	—	—
Tax liabilities	—	12,838	5,666	—	—
Others	—	11,243	5,820	—	—
Other Transfers (Net Lending)	—	**1,500**	**1,000**	**5,499**	**9,217**
Expropriation fund	—	**1,500**	**5,000**	—	**1,450**

Overview of Government Fiscal Operations Budget Sector, cntd.

	2013	2014	2015	2016	2017
			(ALL millions)		
OVERALL DEFICIT	**(66,940)**	**(72,128)**	**(58,202)**	**(26,676)**	**(31,012)**
Deficit Financing	**66,940**	**72,128**	**58,202**	**26,676**	**31,012**
Domestic	56,129	42,237	(6,403)	9,176	1,899
Privatisation receipts	13,230	0,035	0,877	2,805	0,418
Domestic borrowing	46,298	38,212	(17,268)	10,602	16,285
Other	(3,399)	3,990	9,988	(4,231)	(14,804)
Foreign	**10,811**	**29,891**	**64,605**	**17,500**	**29,113**
Long-term loan (drawings)	22,354	19,130	17,832	18,780	23,407
Change .of stat account	1,231	(1,854)	(2,992)	(0,408)	0,169
Repayments	(12,774)	(17,845)	(61,693)	(21,998)	(25,769)
Budgetary support	—	30,460	111,458	21,126	31,306

Source: Ministry of Finance and Economy

Note:

(1) Certain figures in this table have been revised and differ from previously published figures.

The following table sets forth an overview of the revenues, expenditure and overall balance of the budget sector public accounts, as percentages of GDP, for the periods indicated.

Overview of Government Fiscal Operations Budget Sector in Percentage Terms

	2013	2014	2015	2016	2017
			(% of GDP)		
TOTAL REVENUE	**24.2**	**26.3**	**26.6**	**27.6**	**27.7**
Grants	**0.4**	**0.7**	**0.8**	**1.0**	**0.7**
Tax revenue	**22.2**	**24.1**	**24.0**	**25.1**	**25.6**
From tax office and customs	17.0	18.2	18.1	18.7	18.9
V.A.T.	8.3	8.9	8.8	8.9	9.0
Profit tax	1.1	1.5	1.7	2.0	2.0
Excise tax	2.8	2.9	2.7	2.8	2.9
Personal income tax	2.2	2.1	2.1	2.1	2.1
National taxes and others	2.1	2.3	2.4	2.4	2.5
Custom duties	0.4	0.4	0.4	0.4	0.4
Revenues from local government	0.8	0.9	0.8	1.0	1.2
Local taxes	0.2	0.3	0.4	0.3	0.3
Property tax (buildings)	0.1	0.1	0.3	0.0	0.0
Small business tax	0.5	0.5	0.1	0.7	0.9
Social insurance contributions.	4.4	5.0	5.0	5.4	5.6
Social insurance	3.8	4.4	4.2	4.5	4.8
Health insurance	0.5	0.6	0.7	0.7	0.7
Revenue for owners compensation	0.1	0.0	0.1	0.1	0.1
Non-tax revenue	**1.6**	**1.5**	**1.8**	**1.5**	**1.3**
Profit transferred from BOA	0.3	0.1	0.1	0.1	0.1
Budgetary institutions revenue	0.7	0.8	0.0	0.0	0.9
Dividends	0.1	0.1	0.0	0.0	0.0
Revenue from services tariffs	0.2	0.2	0.2	0.2	0.1
Other revenue	0.2	0.2	0.3	0.2	0.2
TOTAL EXPENDITURE	**29.2**	**31.5**	**30.6**	**29.4**	**29.7**
Current Expenditures	**24.3**	**24.5**	**24.6**	**25.0**	**24.6**
Personnel expenditures	5.2	5.1	5.1	4.6	4.7
Wages	4.5	4.4	4.4	4.0	4.0
Social Insurance Contributions	0.7	0.7	0.7	0.6	0.6
Interest	3.2	2.9	2.7	2.5	2.1
Domestic	2.7	2.3	1.9	1.7	1.4
Foreign	0.6	0.6	0.8	0.7	0.7
Operational & Maintenance	2.4	2.4	3.0	3.0	2.8
Subsidies	0.1	0.1	0.1	0.1	0.1
Support for Energy	0.0	0.0	0.0	0.0	0.0
Social Insurance Outlays	9.5	9.8	9.9	10.4	10.4
Social Insurance	7.1	7.4	7.5	7.8	7.7
Health Insurance	2.2	2.3	2.3	2.4	2.5
Compensation in Value to Owners	0.1	0.1	0.1	0.2	0.3
Local Budget	2.2	2.4	2.4	3.0	3.0
Other Expenditures	1.7	1.8	1.4	1.5	1.5
Unemployment Insurance Benefits	0.1	0.1	0.0	0.0	0.0
Social Assistance	1.4	1.6	1.2	1.4	1.3
Compensation for the Politically Persecuted	0.2	0.1	0.1	0.1	0.1
Reserve Fund/Contingency	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**
Capital Expenditures	**4.8**	**4.4**	**4.4**	**4.0**	**4.4**
Domestic financing	2.7	2.4	2.7	2.7	2.9
Foreign financing	2.1	1.9	1.7	1.4	1.4
Arrears	**0.0**	**2.4**	**1.2**	**0.0**	**0.0**
Infrastructure obligations	0.0	0.7	0.4	0.0	0.0
Tax liabilities	0.0	0.9	0.4	0.0	0.0
Others	0.0	0.8	0.4	0.0	0.0
Other Transfers (Net Lending)	**0.0**	**0.1**	**0.1**	**0.4**	**0.6**
Expropriation fund	**0.0**	**0.1**	**0.4**	**0.0**	**0.1**

Overview of Government Fiscal Operations Budget Sector in Percentage Terms, cntd.

	2013	2014	2015	2016	2017
			(% of GDP)		
OVERALL DEFICIT	**(5.0)**	**(5.2)**	**(4.1)**	**(1.8)**	**(2.0)**
Deficit Financing	**5.0**	**5.2**	**4.1**	**1.8**	**2.0**
Domestic	4.2	3.0	(0.4)	0.6	0.1
Privatisation Receipts	1.0	0.0	0.1	0.2	0.0
Domestic Borrowing	3.4	2.7	(1.2)	0.7	1.0
Other	(0.3)	0.3	0.7	(0.3)	(1.0)
Foreign	**0.8**	**2.1**	**4.5**	**1.2**	**1.9**
Long-term Loans (Drawings)	1.7	1.4	1.2	1.3	1.5
Change of Stat. Account	0.1	(0.1)	(0.2)	0.0	0.0
Repayments	(0.9)	(1.3)	(4.3)	(1.5)	(1.7)
Budgetary Support	0.0	2.2	7.8	1.4	2.0

Source: Ministry of Finance and Economy

Note:
(1) Certain figures in this table have been revised and differ from previously published figures.

Overview

Total budget sector revenues have grown in each of the past five years between 2013-2017 from ALL 327.2 billion in 2013 to ALL 430.4 billion in 2017, an aggregate increase of 31.5% over the period.

Principal factors in the overall growth of revenues since 2013 include the growth of: (i) tax revenue, which grew from ALL 299.9 billion in 2013 to ALL 398.6 billion in 2017, an increase of 32.9%, primarily due to increases in revenue from tax offices and customs and social insurance contributions; and (ii) grants, which increased 93.2% from ALL 5.7 billion in 2013 to ALL 11.0 billion in 2017. Total budget sector tax revenues increased by 12.0%, 1.9%, 8.1% and 7.8% in 2014, 2015, 2016 and 2017, respectively, which offset a decline of 0.3% in 2013.

Increases in tax revenue and grants offset decreases in non-tax revenue over the same period, which declined each year, except 2015, from ALL 21.6 billion in 2013 to ALL 20.7 billion in 2017, representing a decrease of 4.0%, primarily due to declines in profits transferred from the Bank of Albania and other revenue sources.

Total current budget sector expenditures have also grown over the past five years, from ALL 328.6 billion in 2013 to ALL 382.3 billion in 2017. Total current budget sector expenditures increased by 5.1%, 3.8%, 2.9%, 5.1% and 3.7% in 2013, 2014, 2015, 2016 and 2017, respectively. Principal factors in the overall growth of current expenditures since 2013 include the growth of local budget expenditures and social insurance outlays.

The overall fiscal deficit was ALL 31.0 billion in 2017 (2.0% of GDP), as compared to ALL 26.7 billion in 2016 (1.8% of GDP), ALL 58.2 billion in 2015 (4.1% of GDP), ALL 72.1 billion in 2014 (5.2% of GDP) and ALL 66.9 billion in 2013 (5.0% of GDP).

2017 Revenues

Total revenues and grants increased by 5.7% to ALL 430.4 billion in 2017 from ALL 407.0 billion in 2016, primarily due to a 7.8% increase in tax revenues (from ALL 369.9 billion in 2016 to ALL 398.6 billion in 2017). This increase was partially offset by a 8.1% decrease in non-tax revenues (from ALL 22.5 billion in 2016 to ALL 20.7 billion in 2017) and by a 24.3% decrease in grants (from ALL 14.6 billion in 2016 to ALL 11.1 billion in 2017). The increase in tax revenues in 2017 was primarily due to a 6.4% increase in tax revenue from tax offices and customs (from ALL 275.8 billion in 2016 to ALL 293.4 billion in 2017), a 9.7% increase in social insurance contributions (from ALL 79.2 billion in 2016 to ALL 86.8 billion in 2017) and a 23.4% increase in revenues from local government (from ALL 15.0 billion in 2016 to 18.4 billion in 2017). The increase in tax revenue from tax offices and customs was primarily due to an increase of 6.2% in VAT receipts (from ALL 131.4 billion in 2016 to 139.5 billion in 2017), which was primarily due to: (i) increased imports of base metals (and articles thereof), electrical energy, liquid oil, textile clothing and construction materials; (ii) an increase in the number of small businesses registered for VAT; and (iii) improvements in tax administration.

The decrease in non-tax revenues in 2017 was primarily due to a 8.7% decrease in non-tax revenues from budgetary institutions (from ALL 15.0 billion in 2016 to ALL 13.7 billion in 2017).

Expenditures

Total expenditures increased by 6.4% to ALL 461.4 billion in 2017 from ALL 433.7 billion in 2016. This increase was primarily due to: (i) a 7.6% increase in personnel expenditures from ALL 67.5 billion in 2016 to ALL 72.6 billion in 2017; (ii) a 6.3% increase in social insurance outlays from ALL 152.6 billion in 2016 to ALL 162.1 billion in 2017; (iii) a 6.7% increase in local budget expenditures from ALL 43.6 billion in 2016 to ALL 46.5 billion in 2017; and (iv) a 13.0% increase in capital expenditures from ALL 59.5 billion in 2016 to ALL 68.5 billion in 2017. These increases were partially offset by a 12.0% decrease in interest payments from ALL 36.3 billion in 2016 to ALL 31.9 billion in 2017.

The increase in capital expenditures in 2017, as compared to 2016, was primarily due to funds allocated to large capital expenditure projects.

The increase in local budget expenditures in 2017, as compared to 2016, was primarily due to (i) the transfer of certain functions from central government to local government in 2016 in line with the Local Finance Law; (ii) the implementation of a new policy to increase which aims to improve performance at the local level; and (iii) an increase in investment projects undertaken by local government units.

Subsidies

Historically, certain sectors of the economy have benefited from subsidies from the Government.

The Government's subsidy policy consists of: (i) subsidies to support loss-making strategic sectors (such as railroads and water supply); and (ii) subsidies to incentivise priority sectors through the funding of new policies, such as employment schemes.

The following table sets forth the details of the actual subsidies for 2013 to 2017 and the budgeted subsidies for 2018.

State Subsidies[1]

	For the year ended 31 December					
	2013	**2014**	**2015**	**2016**	**2017**	**2018 (budgeted)**
			(ALL millions)			
Water supply and sanitation	613	451	429.8	428	975	1,000
Railways	440	441	440	390	400	400
School books and student accommodation	349	352	350	350	350	0
Employment scheme[2]	84	262	425	466	475	490
Other	88	91	90	90	110	200
Total	**1,574**	**1,599**	**1,735**	**1,725**	**2,310**	**2,090**

Source: Ministry of Finance and Economy

Notes:

(1) Support to the energy sector is generally provided through project-based financing and guarantees (including by international financial institutions) and, accordingly, subsidies are not granted to this sector.

(2) Employment subsidies target specific categories of persons, including young women, jobseekers with disabilities *etc.*

The ALL 547 million, or 127.8%, increase in state subsidies in respect of water supply and sanitation in 2017 from ALL 428 million in 2016 to ALL 975 million in 2017, and the budgeted ALL 25 million increase of such subsidies in 2018 to ALL 1,000 million, is a result of the Government's adoption of a new national strategy for the integrated management of water resources for the period 2018 to 2027. The new strategy aims at broadening the focus of water subsidies, from strictly cost-based subsidies to performance-based subsidies and to encourage improved water sector performance. In line with this aim, the Government approved the increase of subsidies available in respect of water supply and sanitation in the 2017 and 2018 budgets.

The budgeted ALL 350 million decrease in subsidies available for school books and student accommodation in 2018, as compared to subsidies granted in 2017 relate to the reclassification of these funds as "current domestic transfers", rather than subsidies, in accordance with a decision of the Council of Ministers adopted in February 2018.

Budget Deficits

The budget deficit in 2013 represented 5.0% of GDP, as compared to 5.2% in 2014, 4.1% in 2015, 1.8% in 2016 and 2.0% in 2017. The 2018 budget provides for a budget deficit of 2.0% of GDP.

In the 2014 budget, a strategy was introduced to pay down budgetary arrears, In 2014, ALL 34 billion in arrears were paid, which amounted to 97% of the planned allocated funds (from a planned fund of ALL 35 billion). The payment of arrears increased the deficit for 2014 by the amount paid for arrears. In 2015, ALL 17.6 billion in arrears were paid. Since 2015 no arrears payment has been budgeted for. Quarterly reports regarding the arrears of budgetary institutions are published on the Ministry of Finance and Economy's website.

The following table sets forth an overview of the overall deficit and deficit financing for the periods indicated:

Overall Deficit and Deficit Financing

	As at 31 December				
	2013	2014	2015	2016	2017
	(ALL millions, unless otherwise stated)				
OVERALL DEFICIT	**(66.940)**	**(72.128)**	**(58.202)**	**(26.676)**	**(31.012)**
Overall Deficit in % of GDP	**(5.0)**	**(5.2)**	**(4.1)**	**(1.8)**	**(2.0)**
Deficit Financing	**66.940**	**72.128**	**58.202**	**26.676**	**31.012**
Domestic	56.129	42.237	(6.403)	9.176	1.899
Privatisation Receipts	13.230	0.035	0.877	2.805	0.418
Domestic Borrowing	46.298	38.212	(17.268)	10.602	16.285
Other	(3.399)	3.990	9.988	(4.231)	(14.804)
Foreign	**10.811**	**29.891**	**64.605**	**17.500**	**29.113**
Long-term Loans (Drawings)	22.354	19.130	17.832	18.780	23.407
Chang. of Stat. Account	1.231	(1.854)	(2.992)	(0.408)	0.169
Repayments	(12.774)	(17.845)	(61.693)	(21.998)	(25.769)
Budgetary Support	—	30.460	111.458	21.126	31.306

Source: Ministry of Finance and Economy

Primary Balance

The primary balance represents total revenues less primary expenditures (*i.e.,* total expenditures excluding debt service).

In each of 2013, 2014 and 2015, Albania recorded a primary balance deficit. In each of 2016 and 2017, Albania recorded a primary surplus as a result of fiscal consolidation reforms introduced in recent years.

The table below shows the evolution of primary balance for the years indicated.

Primary Balance

	For the year ended 31 December				
	2013	**2014**	**2015**	**2016**	**2017**
	(ALL millions, except where indicated)				
Total Revenues.....................	327,178	366,721	379,206	407,021	430,397
Total Expenditures...............	394,118	438,849	437,408	433,697	461,410
Debt Service [(1)]	43,335	40,075	38,643	36,259	31,904
Primary Balance	(23,605)	(32,053)	(19,559)	9,583	891
Primary Balance/GDP (%)[(2)(3)]	(1.7)	(2.3)	(1.4)	0.6	0.1

Source: Ministry of Finance and Economy

Notes:

(1) Including interest payments on both foreign currency debt and domestic currency debt.

(2) See "*The Albanian Economy—Gross Domestic Product*".

(3) At current market prices.

Descriptions of Principal Budgetary Components

Tax Revenue

Taxes are the principal source of revenues for the consolidated budget. The tax system in Albania consists of three main categories of taxes: (i) direct taxes on income; (ii) social and health contributions; and (iii) indirect taxes on consumption. Taxes on personal income are the most important direct taxes. Budget revenues in Albania rely heavily on indirect taxation, namely VAT and excise duties, which accounted for 46.3% of total tax revenues in 2017 and 42.9% of total consolidated budget revenues. In 2017, taxes on personal income accounted for 8.1% of tax revenues and revenues from social insurance contributions accounted for 21.8% of total tax revenues. Other taxes levied in Albania are corporate income tax, small business tax (local), customs duties, property tax (local), taxes on vehicles, and other local and national taxes, such as environmental taxes.

With the exception of duties levied on imports (*e.g.*, customs duties, VAT on imported goods and excise duties), which are collected by the Customs Administration, central government taxes are collected by the Tax Administration.

VAT

VAT was introduced in Albania in 1995. Since 1 January 2015, VAT has been regulated by Law № 92 of 2014 "On Value Added Tax" (the "**VAT Law**"). The VAT law targeted aligning Albania's domestic law with current EU VAT rules. Persons and companies involved in any economic activity, including exporting and importing, but excluding farming, must be VAT-registered if they have an annual turnover of ALL 2.0 million or more per calendar year (although certain self-employed professionals must also register for VAT purposes regardless of income). The standard VAT rate is 20% for both domestically-produced and imported goods and services. VAT is levied on the ex-factory price of domestic products and on the cost, insurance and freight ("**CIF**") value of imports, plus the sum of import duties and other charges, including excise taxes. Exports and international transport services are zero-rated.

Certain exemptions to VAT apply, including, among others, medicines, the supply of medical services from private and public health institutions, the supply of private and public educational services, the supply of financial services, gold supplied to the Bank of Albania, postal services, the sale of buildings, certain operations of non-profit organisations, research and development for hydrocarbon operations, gambling, the supply of news printing services, the supply of newspapers, magazines and books of any kind and the supply of advertising services by the media.

Since June 2017, a reduced VAT rate of 6% has been applied for the supply of accommodation services in support of tourist sector initiatives. This reduced VAT rate of 6% is also applied to businesses that develop specified activities, including "agro-tourism". Special VAT schemes also apply in certain cases, including for small businesses, farmers, travel agents, second hand-goods, works of art, collector's items and antiques, profit margins, and investment gold. Farmers, who are not subject to VAT, may benefit from compensation for certain eligible products sold to VAT-taxable subjects.

VAT reimbursements have increased annually from 2004 through 2017. In 2017, 9% of gross collected VAT was refunded.

Excise Tax

Excise taxes are levied on products such as: coffee; beer, wine, alcohol, and other spirits; tobacco and tobacco products; petroleum by-products; incandescent bulbs; tyres; and batteries. All excise duties are expressed in Lek per unit of product. Exemptions to excise taxes apply on exports and approved customs or tax suspension regimes, as well as gas, oil and oil-by products used in oil research activities.

Excise tax is refundable on exports, approved suspension regimes, fuel used by producers of electricity resources of 5 MW or more for each energy resource and fuel used in the production of agriculture products in heated greenhouses.

Personal Income Tax

Personal income tax applies to all income sources of individuals, including wages, salaries, bonuses and other remunerations, income from interest payments, dividends, capital gains, intellectual property rights, the sale of immovable property, rental income and other additional minor categories.

Individual residents pay personal income tax during the taxable period for all sources of income worldwide, while non-resident individuals pay personal income tax during the taxable period for sources of income generated within the territory of Albania.

Income from wages and salaries are taxed progressively. Individuals with an income of lower than ALL 30,000 per month, are exempted from the tax, individuals with an income of ALL 30,000 to ALL 130,000 per month are taxed at a rate of 13% and individuals with an income of over ALL 130,000 per month are taxed at a rate of 23%.

Other personal income such as dividends, interest, royalties, rental income, income from capital gains and income from the sale of immovable property, amongst others, are taxed at a rate of 15%.

Corporate Income tax

All sources of income for domestic and foreign companies engaging in economic activities in Albania are subject to corporate income tax.

Foreign companies based abroad but with activities in Albania are taxed only on the basis of their Albanian operations. Albanian companies are taxed on income from within and outside the territory of Albania.

Since 2014, all corporate income (except for those types of income specified below) is taxed at a rate of 15% for companies with a turnover of over ALL 8 million.

Since January 2018, software development and production companies are subject to corporate income tax at a reduced rate of 5%. Certain accommodation and hotel companies in the tourism sector also benefit from a 10-year exemption from corporate income tax (subject to certain conditions).

Taxable income includes corporate earnings, distributed stock dividends, income from the lease and transfer of real property and interest on bank deposits and securities. There is a withholding tax of 15% on¸ *inter alia,* dividends, royalties, interest, rent, technical services and financial services. For non-Albanian residents, the withholding tax rate may be reduced by an applicable double tax treaty.

Small Business Tax

Tax on small businesses (called the "simplified profit tax for small businesses") defined as those with an annual turnover of less than ALL 8 million. This tax is applied in the place of the standard corporate income tax, as follows:

- 0% for small businesses with an annual turnover of up to ALL 5.0 million.
- 5% for small businesses with an annual turnover of between ALL 5.0 million and ALL 8.0 million.

Simplified income tax forms part of local taxes, as it is declared and paid by small taxpayers in the central tax administration system, and is then transferred to local governments.

Social Contributions

Employers pay a rate of 15% on gross wages as a social contribution on behalf of employees. In addition, employees pay a rate of 9.5% on gross wages as a social contribution, resulting in a combined total social contribution of 24.5% of gross wages. The tax base for social contributions is for employees who earn between ALL 24,000 and ALL 105,850, per month.

Self-employed persons pay social contributions at a rate equivalent to 23.4% of the monthly minimum gross wage (ALL 24,000).

Health Insurance Contributions

Employers pay a rate of 1.7% on gross wages as health insurance contributions on behalf of employees, which is matched by employees, resulting in a combined total health insurance contribution of 3.4 % of gross wages.

Self-employed persons pay health insurance contributions of 3.4% of the twice monthly minimum gross wage.

National taxes and tariffs

National taxes include road circulation tax, carbon tax, packages tax, port tax, mineral royalty tax, stamp tax, tax for registration of casinos and gambling, tax for fishing activities, tax on transactions of used motor vehicles, tax on insurance written premiums (excluding premiums for life, health care and travel insurance), tax on initial vehicle registration and an annual tax on luxury vehicles.

Expenditures

Special Funds

While Albania's public finance system does not include extra-budgetary funds, the Organic Budget Law includes a concept of special funds, which are consolidated in the budget. A special fund has its own revenues and expenditures, but is not self-funding. Local government special funds are proposed to the Minister of Finance and Economy by the council of the relevant local government.

There are three such specific funds: the Social Insurance Fund, the Health Care Fund and the Property Compensation Fund.

International Tax Agreements

Albania has signed 41 double tax treaties with the following countries: Poland, Romania, Malaysia, Hungary, Turkey, Czech Republic, Russia, Macedonia, Croatia, Italy, Bulgaria, Sweden, Norway, Greece, Malta, Switzerland, Moldova, Belgium, China, France, Egypt, the Netherlands, Kosovo, Serbia and Montenegro, Austria, Slovenia, Latvia, South Korea, Bosnia-Herzegovina, Luxembourg, Ireland, Estonia, Germany, Kuwait, Spain, Singapore, Qatar, India, the United Kingdom, the United Arab Emirates and Iceland.

In accordance with EU and OECD recommendations, Albania has commenced the process to approve the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (the "**Multilateral Instrument**"), which aims to implement tax treaty measures, update international tax rules and reduce the opportunity for tax avoidance by multinational enterprises.

TAXATION

The following is a summary of certain income tax consequences resulting from the purchase, ownership and disposition of the Notes and is not intended to reflect the individual tax position of any beneficial owner.

Persons considering the purchase of the Notes should consult their own tax advisers concerning the application of Albanian tax laws to their particular situations, as well as any consequences of the purchase, ownership and disposition of the Notes arising under the laws of any other taxing jurisdiction. Such laws and regulations are subject to change or varying interpretations, possibly with retroactive effect. As with other areas of Albanian legislation, tax law and practice in Albania is not as clearly established as that of more developed jurisdictions. It is possible, therefore, that the current interpretation of the law or understanding of the practice may change or, that the law may be amended with retroactive effect. Accordingly, it is possible that payments to be made to Noteholders could become subject to taxation, or that tax rates currently in effect could be increased, in ways that cannot be anticipated as at the date of this Prospectus.

Albanian Taxation

This section summarises the basic Albanian tax consequences of issue and redemption of the Notes for both non-residents and residents of the Republic of Albania pursuant to applicable Albanian tax legislation. The following summary is included for general information only.

Tax on Issue of the Notes

No stamp, registration or state duty or similar tax will be payable in the Republic of Albania upon the issue or transfer of the Notes.

Tax exemption under Law № 63 dated 20 September 2018 "On the Eurobond to be issued by the Minister of Finance and Economy and the buyback of a portion of the existing Eurobond, approval of exemptions from taxes and fees and provisions for waiver of immunity in the agreements to be signed by the Minister of Finance and Economy"

The Assembly has enacted Law № 63 of 20 September 2018 "On the Eurobond to be issued by the Minister of Finance and Economy and the buyback of a portion of the existing Eurobond, approval of exemptions from taxes and fees and provisions for waiver of immunity in the agreements to be signed by the Minister of Finance and Economy". Pursuant to Article 2 of this law, payments in respect of the Notes are exempt from Albanian income tax, Albanian value added tax and all and any other taxes in the Republic of Albania that may arise as a result of all transactions and activities in relation to the issue, management, holding and trading of the Notes. Accordingly, there will be no withholding tax chargeable in respect of the Notes.

Gross-Up Obligation

Pursuant to Condition 8 of the Conditions, all payments of principal and interest in respect of the Notes by or on behalf of the Issuer shall be made free and clear of, and without withholding or deduction for, or on account of, any present or future taxes, duties, assessments or governmental charges of whatever nature imposed, levied, collected, withheld or assessed by or on behalf of the Republic of Albania or any political subdivision thereof or any authority therein or thereof having power to tax, unless the withholding or deduction of such taxes, duties, assessments or governmental charges is required by law, in circumstances where the tax exemption provision under Law № 63 of 20 September 2018 "On the Eurobond to be issued by the Minister of Finance and Economy and the buyback of a portion of the existing Eurobond, approval of exemptions from taxes and fees and provisions for waiver of immunity in the agreements to be signed by the Minister of Finance and Economy" is for some reason no longer valid (*e.g.*, due to a change in legislation). In such an event, the gross-up provisions in Condition 8 of the Conditions will apply.

U.S. Federal Income Tax Considerations

The following discussion is an overview of certain U.S. federal income tax consequences relevant to the purchase, ownership and disposition of the Notes. This discussion addresses only U.S. Holders (as defined below) who purchase Notes in the original offering at the issue price (as defined below), hold the Notes as capital assets and use the U.S. Dollar as their functional currency. This summary is based on the U.S. Internal Revenue Code of 1986, as amended (the "**Code**"), final, temporary and proposed U.S. Treasury Regulations thereunder, administrative and judicial interpretations, all as in effect as of the date of this Prospectus and any of which may be repealed, revoked or modified or subject to differing interpretations, possibly with retroactive effect, so as to result in U.S. federal income tax consequences different from those discussed below. There can be no assurances that the Internal Revenue Service (the

"**IRS**") will not challenge one or more of the tax consequences described herein, and we have not obtained, nor do we intend to obtain, a ruing form the IRS with respect to the U.S. federal income tax consequences of purchasing, owning or disposing of the Notes.

This discussion is not a complete description of all U.S. federal tax consequences relating to the Notes and does not address U.S. state, local, foreign, or other tax laws. This summary does not address aspects of U.S. federal income taxation that may be applicable to U.S. Holders that are subject to special tax rules, such as U.S. expatriates, "dual resident" companies, banks, thrifts, financial institutions, insurance companies, real estate investment trusts, regulated investment companies, a U.S. or non-U.S. partnership or other entity treated as a partnership for U.S. federal income tax purposes, grantor trusts, individual retirement accounts and other tax-deferred accounts, tax-exempt organisations or investors, dealers or traders in securities, commodities or currencies, holders that will hold a Note as part of a position in a "straddle" or as part of a "synthetic security" or as part of a "hedging", "conversion", "integrated" or constructive sale transaction for U.S. federal income tax purposes. Moreover, this summary does not address the U.S. federal estate and gift tax, U.S. Holders liable for alternative minimum tax or the Medicare tax applicable to net investment income and investors holding the Notes in connection with a trade or business conducted outside of the United States, and does not address special rules for the taxable year of inclusion under Section 451(b) of the Code. Each prospective purchaser should consult its tax adviser with respect to the U.S. federal, state, local and foreign tax consequences of acquiring, holding, retiring or other disposition of Notes.

For the purposes of this discussion, a "**U.S. Holder**" is a beneficial owner of the Notes that is, for purposes of U.S. federal income taxation, (i) an individual who is a citizen or resident of the United States, (ii) a corporation created or organised in or under the laws of the United States or any U.S. state or the District of Columbia, (iii) a trust (A) with respect to which a court within the United States is able to exercise primary supervision over its administration, and one or more U.S. persons have the authority to control all of its substantial decisions or (B) that has made a valid election in effect to be treated as a U.S. person for U.S. federal income tax purposes, or (iv) an estate the income of which is subject to U.S. federal income taxation regardless of its source.

If a partnership (or any entity or arrangement treated as a partnership for U.S. federal income tax purposes) purchases or holds the Notes, the U.S. federal income tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. If a U.S. Holder is a partner in a partnership that holds the Notes, such holder is urged to consult its own tax adviser regarding the specific tax consequences of the purchase, ownership and disposition of the Notes.

The "issue price" of a Note will equal the initial offering price to the public (not including bond houses, brokers or similar persons or organisations acting in the capacity of underwriters, placement agents or wholesalers) at which a substantial amount of the Notes is sold for money.

THE OVERVIEW OF U.S. FEDERAL INCOME TAX CONSEQUENCES SET OUT BELOW IS FOR GENERAL INFORMATION ONLY. ALL PROSPECTIVE PURCHASERS SHOULD CONSULT THEIR TAX ADVISERS AS TO THE PARTICULAR TAX CONSEQUENCE TO THEM OF OWNING THE BONDS, INCLUDING THE APPLICABILITY AND EFFECT OF STATE, LOCAL, FOREIGN AND OTHER TAX LAWS AND POSSIBLE CHANGES IN TAX LAW.

Interest

Except as set forth below, interest paid on a Note will be included in a U.S. Holder's gross income as ordinary interest income at the time it is received or accrued in accordance with the U.S. Holder's usual method of accounting for U.S. federal income tax purposes. Interest income on the Notes will be treated as income from sources outside the United States for U.S. federal income tax purposes, including U.S. foreign tax credit limitation purposes.

Foreign Currency Denominated Qualified Stated Interest

Except as set forth below, the amount of income realized by a U.S. Holder will be the U.S. Dollar value of any qualified stated interest (as defined below under "*Original Issue Discount*") paid on a Note in euros, including the amount of any applicable withholding tax thereon and any additional amounts paid with respect thereto, regardless of whether the euros are converted into U.S. Dollars. Generally, a U.S. Holder that uses the cash method of tax accounting and that receives a payment of qualified stated interest will determine such U.S. Dollar value using the spot rate of exchange on the date of receipt. Generally, a U.S. Holder that uses the accrual method of tax accounting may determine the U.S. Dollar value of accrued interest income using the average rate of exchange for the accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year) or, at the U.S. Holder's election, at the spot rate of exchange on the last day of the accrual period (or, in the case of an accrual period that spans two taxable years of a U.S. Holder, the part of the period within each taxable year) or on the date of receipt, if that date is within five business days of the last day of the accrual period. Any such election will apply to all debt instruments held by the U.S. Holder at the beginning of the first taxable year to which the election applies or thereafter acquired by the U.S. Holder, and will be irrevocable without the consent of the IRS. A U.S. Holder that uses the accrual method of tax accounting will recognise U.S. source foreign currency gain or loss on the receipt of an interest payment if the exchange rate in effect on the date payment is received differs from the rate applicable to an accrual of that interest, regardless of whether the payment is converted to U.S. Dollars at such time. This foreign currency gain or loss will be treated as ordinary income or loss, but generally will not be treated as an adjustment to interest income received on the Note.

Original Issue Discount

U.S. Holders of Notes issued with original issue discount ("**OID**") with a term of over one year (each an **"Original Issue Discount Note**"), will be subject to special tax accounting rules, as described in greater detail below. Additional rules applicable to Original Issue Discount Notes that are denominated in or determined by reference to a currency other than the U.S. Dollar are described below under "*—Foreign Currency Discount Notes"*.

For U.S. federal income tax purposes, a Note will be treated as issued with original issue discount ("**OID**") if the excess of the Note's stated redemption price at maturity over its issue price equals or exceeds a specified *de minimis* amount (0.25% of the Note's stated redemption price at maturity multiplied by its weighted average maturity). The "issue price" of each Note will be the first price at which a substantial amount of the Notes are sold (other than to an underwriter, broker, placement agent or wholesaler). The term "qualified stated interest" generally means stated interest that is unconditionally payable in cash or in property (other than debt instruments of the issuer) at least annually at a single fixed rate. In the case of a Note whose stated redemption price at maturity exceeds its issue price by less than the specific *de minimis* amount ("***de minimis*** **OID**"), a U.S. Holder of such Note will recognise capital gain with respect to any *de minimis* OID as stated principal payments on the Note are made. The amount of such gain with respect to each principal payment will equal the product of the total amount of the Note's *de minimis* OID and a fraction, the numerator of which is the amount of the principal payment made and the denominator of which is the stated principal amount of the Note.

U.S. Holders of Original Issue Discount Notes must, in general, include OID as ordinary income, calculated on the constant yield method, as described in this paragraph, in advance of the receipt of some or all of the related cash payments, regardless of their method of accounting. The amount of OID includible in income by the initial U.S. Holder of an Original Issue Discount Note is the sum of the "daily portions" of OID with respect to the Note for each day during the taxable year or portion of the taxable year in which such U.S. Holder held such Note ("**accrued OID**"). The daily portion is determined by allocating to each day in any "accrual period" a *pro rata* portion of the OID allocable to that accrual period. The "accrual period" for an Original Issue Discount Note may be of any length selected by the U.S. Holder and may vary in length over the term of the Note, provided that each accrual period is no longer than one year and each scheduled payment of principal or interest occurs on the first day or the final day of an accrual period. The amount of OID allocable to any accrual period is an amount equal to the excess, if any, of (a) the product of the Note's adjusted issue price at the beginning of such accrual period and its yield to maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) over (b) the sum of any qualified stated interest allocable to the accrual period. OID allocable to a final accrual period is the difference between the amount payable at maturity (other than a payment of qualified stated interest) and the adjusted issue price at the beginning of the final accrual period. Special rules will apply for calculating OID for an initial short accrual period. The "stated redemption price at maturity" of a Note is the sum of all amounts payable on the Note that are not payments of qualified stated interest. The "adjusted issue price" of a Note at the beginning of any accrual period is equal to its issue price increased by the accrued OID for each prior accrual period and reduced by any payments made on such Note (other than qualified stated interest) on or before the first day of the accrual period. The "yield to maturity" of a Note is the discount rate that causes the present value of all payments on the Note as of its original issue date to equal the issue price of such Note. Under these rules, a U.S. Holder will generally have to include in income increasingly greater amounts of OID in successive accrual periods. Persons considering the purchase of Notes should consult their own tax advisors regarding the U.S. federal income tax consequences of the ownership and disposition of such Notes, including the potential application of the OID rules.

Foreign Currency Discount Notes

OID for any accrual period on an Original Issue Discount Note will be determined in Euros and then translated into U.S. Dollars in the same manner as stated interest accrued by an accrual basis U.S. Holder, as described above under "*—Foreign Currency Denominated Qualified Stated Interest.*" Upon receipt of an amount attributable to OID (whether in connection with a payment of interest or the sale, exchange or disposition of a Note), a U.S. Holder will recognise foreign currency gain or loss (taxable as ordinary income or loss) equal to the difference between the amount received (translated into U.S. Dollars at the spot rate on the date of receipt) and the amount previously accrued, regardless of whether the payment is in fact converted into U.S. Dollars.

Fungible Issue

The Issuer may, without the consent of the Noteholders of outstanding Notes, issue further securities with identical terms as the Notes. These additional Notes, even if they are treated for non-tax purposes as part of the same series as the original Notes, in some cases may be treated as a separate series for U.S. federal income tax purposes. In such a case, the additional Notes may be considered to have been issued with OID even if the original Notes had no OID, or the additional Notes may have a greater amount of OID than the original Notes. These differences may affect the market value of the original Notes if the additional Notes are not otherwise distinguishable from the original Notes. Any U.S. federal income tax considerations which apply to a separate series of additional Notes issued with OID will be described in the applicable prospectus.

Sale, exchange, redemption or other disposition of Notes

A U.S. Holder's adjusted tax basis in a Note generally will be its U.S. Dollar cost (as defined herein) increased by the amount of any OID included in the U.S. Holder's income with respect to the Note and reduced by the amount of any payments that are not qualified stated interest payments. The U.S. Dollar cost of a Note (including a Note purchased with a foreign currency) generally will be the U.S. Dollar value of the purchase price on the date of purchase or, in the case of Notes traded on an established securities market, as defined in the applicable U.S. Treasury Regulations, that are purchased by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the purchase.

A U.S. Holder generally will recognise gain or loss on the sale, exchange, redemption or other disposition of a Note in an amount equal to the difference between the amount realised (less any accrued but unpaid interest, which will be taxable as interest income to the extent not previously included in income) and the U.S. Holder's adjusted tax basis in the Note. The amount realised on a sale, exchange, redemption or other disposition for an amount in foreign currency will be the U.S. Dollar value of such amount on the date of sale, exchange, redemption or other disposition or, in the case of Notes traded on an established securities market, within the meaning of the applicable U.S. Treasury Regulations, sold by a cash basis U.S. Holder (or an accrual basis U.S. Holder that so elects), on the settlement date for the sale. Such settlement date election (described in this and the preceding paragraph) by an accrual basis U.S. Holder must be applied consistently from year to year and cannot be revoked without the consent of the IRS.

Gain or loss recognised on the sale, exchange, redemption or other disposition of a Note (other than gain or loss that is attributable to OID or to exchange rate fluctuates) generally will be treated as capital gain or loss. A U.S. Holder will have long-term capital gain or loss if it has held the Note for more than one year at the time of such disposition. Gain or loss realised by a U.S. Holder on the sale, exchange, redemption or other disposition of the Notes generally will be U.S. source capital gain or loss. The long-term capital gains of non-corporate U.S. Holders may be taxed at lower rates. Deductions for capital losses are subject to significant limitations. Gain or loss recognised by a U.S. Holder on the sale, exchange, redemption or other disposition of a Note that is attributable to changes in the exchange rates will be treated as U.S. source ordinary income or loss; however, exchange gain or loss (including with respect to accrued interest) is taken into account only to the extent of total gain or loss realised on the transaction.

Sale, Exchange or Disposition of Foreign Currency

A U.S. Holder will have a tax basis in any foreign currency received as interest on a Note or on the sale, exchange, redemption or other disposition of a Note equal to its U.S. Dollar value at the time such interest is received or at the time of such sale, exchange, redemption or other disposition. Any gain or loss realised by a U.S. Holder on a sale, exchange, redemption or other disposition of foreign currency (including its exchange for U.S. Dollars or its use to purchase Notes) generally will be U.S source ordinary income or loss.

Information Reporting and Backup Withholding

In general, payments of principal, interest on and the proceeds from the sale, exchange, redemption or other disposition of a Note payable to a U.S. Holder by a U.S. paying agent or other U.S. related intermediary will be reported to the IRS and to the U.S. Holder as may be required under applicable regulations. U.S. backup withholding tax will apply to amounts subject to reporting if the U.S. Holder fails to provide an accurate taxpayer identification number, to certify that such U.S. Holder is not subject to backup withholding or certification of exempt status, or otherwise fails to comply with the applicable backup withholding requirements. Certain U.S. Holders (including corporations) are not subject to information and backup withholding. Backup withholding is not an additional tax. The amount of any backup withholding imposed on a payment will be allowed as a credit against any U.S. federal income tax liability of a U.S. Holder and may entitle the U.S. Holder to a refund, provided the required information is timely furnished to the IRS. U.S. Holders of Notes should consult their own tax advisers regarding any filing and reporting obligations they may have as a result of their purchase, ownership or disposition of the Notes.

Backup withholding is not an additional tax. A U.S. Holder can claim a credit against U.S. federal income tax liability for amounts withheld under the backup withholding rules, and it can claim a refund of amounts in excess of its liability by timely providing required information to the IRS.

Reportable Transaction Reporting

Under certain U.S. Treasury Regulations, U.S. Holders that participate in "reportable transactions" (as defined in the U.S. Treasury Regulations) must attach to their U.S. federal income tax returns a disclosure statement on Form 8886. Under the relevant rules, if the Notes are denominated in a foreign currency, a U.S. Holder may be required to treat foreign currency exchange loss from the Notes as a reportable transaction if this loss exceeds the relevant threshold in the regulations (U.S.$50,000 in a single taxable year, if the U.S. Holder is an individual or trust, or higher amount for other non-individual U.S. Holders), and to disclose its investment by filing Form 8886 with the IRS. A penalty of up to U.S.$10,000 in the case of a natural person and U.S.$50,000 in all other cases may be imposed in any taxable year on any taxpayer that fails to timely file an information return with the IRS with respect to a transaction resulting in a loss that is treated as a reportable transaction. U.S. Holders should consult their own tax advisors as to the possible obligation to file Form 8886 with respect to the ownership or disposition of the Notes, or any related transaction, including without limitation, the disposition of any foreign currency received as interest or as proceeds from the sale, exchange or retirement of the Notes.

Foreign Financial Asset Reporting

Certain U.S. Holders that own "specified foreign financial assets," including securities issued by any foreign person, either directly or indirectly or through certain foreign financial institutions may be subject to additional reporting obligations, if the aggregate value of all of those assets exceeds U.S.$50,000 on the last day of the taxable year or U.S.$75,000 at any time during the taxable year, or certain other requirements are met. The Notes may be treated as specified foreign financial assets, and U.S. Holders may be subject to this information reporting regime. Significant penalties and an extended statute of limitations may apply to a U.S. Holder that fails to file information reports. U.S. Holders should consult their own tax advisers regarding these potential information reporting obligations.

The Proposed Financial Transactions Tax ("FTT")

On 14 February 2013, the European Commission published a proposal (the "**Commission's Proposal**") for a Directive for a common FTT in Belgium, Germany, Estonia, Greece, Spain, France, Italy, Austria, Portugal, Slovenia and Slovakia (the "**participating Member States**"). However, Estonia has since stated that it will not participate.

The Commission's Proposal has very broad scope and could, if introduced, apply to certain dealings in the Notes (including secondary market transactions) in certain circumstances. Primary market transactions referred to in Article 5(c) of Regulation (EC) No 1287/2006 are expected to be exempt.

Under the Commission's Proposal the FTT could apply in certain circumstances to persons both within and outside of the participating Member States. Generally, it would apply to certain dealings in the Notes where at least one party is a financial institution, and at least one party is established in a participating Member State. A financial institution may be, or be deemed to be, "established" in a participating Member State in a broad range of circumstances, including (a) by transacting with a person established in a participating Member State or (b) where the financial instrument which is subject to the dealings is issued in a participating Member State.

The Commission's Proposal, however, remains subject to negotiation among participating Member States. It may, therefore, be altered prior to any implementation, the timing of which remains unclear. Additional EU Member States may decide to participate.

Prospective holders of the Notes are advised to seek their own professional advice in relation to the FTT.

CLEARING AND SETTLEMENT ARRANGEMENTS

*The information set out below is subject to any change in or reinterpretation of the rules, regulations and procedures of Euroclear or Clearstream, Luxembourg (together, the "**Clearing Systems**") currently in effect. The information in this section concerning the Clearing Systems has been obtained from sources that the Republic believes to be reliable, but neither the Republic or the Joint Lead Managers takes any responsibility for the accuracy of this section. Investors wishing to use the facilities of any of the Clearing Systems are advised to confirm the continued applicability of the rules, regulations and procedures of the relevant Clearing System. None of the Republic or any other party to the Agency Agreement will have any responsibility or liability for any aspect of the records relating to, or payments made on account of, beneficial ownership interests in the Notes held through the facilities of any Clearing System or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.*

Clearing Systems

Euroclear and Clearstream, Luxembourg each hold securities for their customers and facilitate the clearance and settlement of securities transactions by electronic book-entry transfer between their respective account holders. Euroclear and Clearstream, Luxembourg provide various services including safekeeping, administration, clearance and settlement of internationally traded securities and securities lending and borrowing. Euroclear and Clearstream, Luxembourg also deal with domestic securities markets in several countries through established depositary and custodial relationships. Euroclear and Clearstream, Luxembourg have established an electronic bridge between their two systems across which their respective participants may settle trades with each other.

Euroclear and Clearstream, Luxembourg customers are worldwide financial institutions, including underwriters, securities brokers and dealers, banks, trust companies and clearing corporations. Indirect access to Euroclear and Clearstream, Luxembourg is available to other institutions that clear through or maintain a custodial relationship with an account holder of either system.

Registration and Form

Interests in the Unrestricted Global Certificate and the Restricted Global Certificate will be in uncertificated book-entry form ("**book-entry interests**"). The holdings of book-entry interests in the Notes through Euroclear or Clearstream, Luxembourg will be reflected in the book-entry accounts of each such institution. As necessary, the Registrar will adjust the relevant Register to reflect the amounts of Notes held through Euroclear and Clearstream, Luxembourg, respectively. Beneficial ownership of Notes will be held through financial institutions as direct and indirect participants in Euroclear and Clearstream, Luxembourg.

So long as Euroclear or Clearstream, Luxembourg or the nominee of their common depositary is the registered holder of the Global Certificates, Euroclear, Clearstream, Luxembourg or such nominee, as the case may be, will be considered the sole owner or holder of the Global Certificates for all purposes under the Agency Agreement. Consequently, none of the Republic, the Fiscal Agent, any other Agent or the Joint Lead Managers or any affiliate of any of the above or any person by whom any of the above is controlled for the purposes of the Securities Act will have any responsibility or liability for any aspect of the records relating to or payments made on account of beneficial ownership interests in the Global Certificates or for maintaining, supervising or reviewing any records relating to such beneficial ownership interests.

The laws of some states of the United States require that certain persons take physical delivery of securities in definitive form. Consequently, the ability to transfer interests in a Global Certificate to such persons will be limited. Because Euroclear and Clearstream, Luxembourg can only act on behalf of participants, who in turn act on behalf of indirect participants, the ability of a person having an interest in a Global Certificate to pledge such interest to persons or entities which do not participate in the relevant clearing system, or otherwise take actions in respect of such interest, may be affected by the lack of a physical certificate in respect of such interest.

The Republic will not impose any fees in respect of holding the Notes; however, holders of book-entry interests in the Notes may incur fees normally payable in respect of the maintenance and operation of accounts in Euroclear or Clearstream, Luxembourg.

Clearing and Settlement Procedures

Upon their original issue, the Notes will be in global form represented by the Global Certificates. Interests in the Notes will be in uncertificated book-entry form. Secondary market sales of book-entry interests in the Notes held through Euroclear or Clearstream, Luxembourg will be conducted in accordance with the normal rules and operating procedures of Euroclear and Clearstream, Luxembourg and will be settled using the procedures applicable to conventional Eurobonds.

The book-entry interests will trade through participants of Euroclear or Clearstream, Luxembourg and will settle in same-day funds. Since the purchase determines the place of delivery, it is important to establish at the time of trading of any book-entry funds where both the purchaser's and the seller's accounts are located to ensure that settlement can be made on the desired value date.

General

Neither Euroclear nor Clearstream, Luxembourg is under any obligation to perform or continue to perform the procedures referred to above, and such procedures may be discontinued at any time.

None of the Republic or any of their agents will have any responsibility for the performance by Euroclear or Clearstream, Luxembourg or their respective participants of their respective obligations under the rules and procedures governing their operations or the arrangements referred to above.

SUBSCRIPTION AND SALE

Pursuant to and subject to the terms and conditions of a subscription agreement dated 5 October 2018 (the "**Subscription Agreement**") between the Republic and the Joint Lead Managers, each of the Joint Lead Managers has severally agreed to purchase, and the Issuer has agreed to sell to each of the Joint Lead Managers, the principal amount of the Notes set forth opposite each Joint Lead Manager's name below:

Joint Lead Manager	Principal amount of Notes
Banca IMI S.p.A	€166,666,000
Citigroup Global Markets Limited	€166,668,000
Société Générale	€166,666,000
Total	**€500,000,000**

The Issuer has been informed that the Joint Lead Managers propose to resell the Notes at the issue price set forth on the cover page of this Prospectus within the United Sates to persons reasonably believed to be qualified institutional buyers (as defined in Rule 144A) in reliance upon Rule 144A, and to persons outside the United States in reliance upon Regulation S. See "*– United States*" and "*Transfer Restrictions*" below. The issue price at which the Notes are offered may be changed at any time without notice.

The Issuer will reimburse the Joint Lead Managers in respect of certain of their expenses, and have agreed to indemnify the Joint Lead Managers and their controlling persons against certain liabilities (including liabilities under the Securities Act), incurred in connection with the issue of the Notes.

The Subscription Agreement provides that the obligations of the Joint Lead Managers to subscribe for Notes are subject to certain conditions precedent, including (among other things) receipt of legal opinions from legal counsel, and the Subscription Agreement may also be terminated in certain circumstances prior to payment of the issue price to the Issuer. The offering of the Notes by the Joint Lead Managers is subject to the Joint Lead Managers' right to reject any order in whole or in part.

Offers and sales of the Notes in the United States will be made by those Joint Lead Managers or their affiliates that are registered broker-dealers under the U.S. Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), or in accordance with Rule 15a-6 thereunder.

Allocations of the Notes to potential investors in the offering will be made in accordance with customary allocation processes and procedures following the completion of the book-building process for the offering of the Notes and will be made at the sole discretion of the Issuer. The Issuer intends, in connection with the initial allocation of the Notes, to consider, among other factors, whether or not the relevant investor seeking an allocation of the Notes has also tendered existing 2020 Notes for purchase pursuant to the Tender Offer and, if so, the aggregate original principal amount of such existing 2020 Notes tendered by such investor. When determining allocations of Notes, the Issuer intends to look favourably upon those investors whose existing 2020 Notes have been validly tendered and accepted for purchase pursuant to the Tender Offer and, therefore, an investor that wishes to subscribe for Notes in addition to tendering the existing 2020 Notes for purchase pursuant to the Tender Offer may be eligible to receive priority in the allocation of the Notes (if issued). Such priority will not exceed the aggregate original principal amount of the existing 2020 Notes tendered and in no event shall exceed €200 million.

The Notes are a new issue of securities for which there currently is no market. The Issuer cannot provide assurance that the prices at which the Notes will sell in the market after this offering will not be lower than the initial offering price or that an active trading market for the Notes will develop and continue after this offering. The Joint Lead Managers have advised the Issuer that following the completion of the offering of the Notes, they intend to make a market in the Notes. They are not obligated to do so, however, and any market-making activities with respect to the Notes may be discontinued at any time at their sole discretion without notice. In addition, such market-making activity will be subject to the limits imposed by the Securities Act and the Exchange Act. Accordingly, the Issuer cannot give any assurance as to the development of any market or the liquidity of any market for the Notes.

In connection with the offering of the Notes, the Joint Lead Managers may engage in over-allotment, stabilising transactions and syndicate covering transactions. Over-allotment involves sales in excess of the offering size, which creates a short position for the Joint Lead Managers. Stabilising transactions involve bids to purchase the Notes in the open market for the purpose of pegging, fixing or maintaining the price of the Notes. Syndicate covering transactions involve purchases of the Notes in the open market after the distribution has been completed in order to cover short positions. Any of these activities may prevent a decline in the market price of the Notes, and may also cause the price of the Notes to be higher than it would otherwise be in the absence of these transactions. The Joint Lead Managers may conduct these transactions in the over-the-counter market or otherwise. If the Joint Lead Managers commence any of these transactions, they may discontinue them at any time.

The Issuer expects that delivery of interests in the Notes will be made against payment therefor on the Issue Date specified on the cover page of this Prospectus, which will be the fifth Business Day following the date of pricing of the Notes (this settlement cycle being referred to as T+5). Under Rule 15c6-l of the Exchange Act, trades in the secondary market generally are required to settle in two New York business days, unless the parties to any such trade expressly agree otherwise. Accordingly, investors who wish to trade interests in the Notes on the date of pricing of the Notes or the next New York business day will be required, by virtue of the fact that the Notes initially will settle in T+5, to specify an alternate settlement cycle at the time of any such trade to prevent a failed settlement. Investors in the Notes who wish to trade interests in the Notes on the date of pricing of the Notes or the next New York business day should consult their own adviser.

The Joint Lead Managers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the Joint Lead Managers and their affiliates have performed certain investment and commercial banking or financial advisory services for the Issuer and their affiliates from time-to-time, for which they have received customary fees and commissions, and they expect to provide these services to the Issuer and their affiliates in the future, for which they expect to receive customary fees and commissions. In connection with the Tender Offer, the Joint Lead Managers are acting as dealer managers.

In addition, in the ordinary course of their business activities, the Joint Lead Managers and their affiliates may make or hold a broad array of investments and actively trade debt and equity securities (or related derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers. Such investments and securities activities may involve securities and/or instruments of the Issuer or its affiliates. If the Joint Lead Managers or their affiliates have a lending relationship with the Issuer, they routinely hedge their credit exposure to the Issuer consistent with their customary risk management policies. Typically, the Joint Lead Managers and their affiliates would hedge such exposure by entering into transactions which consist of either the purchase of credit default swaps or the creation of short positions in the Issuer's securities, including potentially the Notes. Any such short positions could adversely affect future trading prices of the Notes. The Joint Lead Managers and their affiliates may also make investment recommendations and/or publish or express independent research views in respect of such securities or financial instruments and may hold, or recommend to clients that they acquire, long and/or short positions in such securities and instruments.

United States

The Notes have not been and will not be registered under the Securities Act and may not be offered or sold within the United States except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act. Each Joint Lead Manager has represented, warranted and undertaken to the Republic that it proposes to offer the Notes for resale (a) to persons they reasonably believe to be QIBs, within the meaning of Rule 144A under the Securities Act, in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) in "offshore transactions" (as defined in Rule 902(k) under the Securities Act) in accordance with Rule 903 of Regulation S under the Securities Act.

In addition, until 40 days after the commencement of the offering of the Notes, an offer or sale of any of the Notes within the United States by any dealer (whether or not participating in the offering) may violate the registration requirements of the Securities Act if the offer or sale is made otherwise than in accordance with Rule 144A.

United Kingdom

Each Joint Lead Manager has represented, warranted and undertaken that:

(a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of the Notes in circumstances in which Section 21(1) of the FSMA does not apply to the Republic; and

(b) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to the Notes in, from or otherwise involving the United Kingdom.

The Republic of Albania

In accordance with Article 41 of Law № 9879 of 21 February 2008 (the "**Law on Securities**") (Official Journal № 36 of 12 March 2008, page 1629), the issuance of securities by the Albanian state, which would include the issue of the Notes by the Republic, is exempted/excluded from the application of the rules set forth in section two, of the first chapter entitled "On the Issuance of Securities" of the Law on Securities.

In accordance with Article 42 of the Law on Securities, a "reverse inquiry" shall not be considered as an activity related to the sale and distribution of the Notes. The Joint Lead Managers may, therefore, accept "reverse inquiry" offers from Albanian investors without any need for licensing or any other permission of whatever nature from the Albanian Financial Supervisory Authority (the "**Authority**").

In respect of the sale and distribution of the Notes by the Joint Lead Managers within the territory of the Republic of Albania, this may be performed without any licensing or any other permission of whatever nature from the Authority, provided that the Joint Lead Managers engage an authorised Albanian commissioning company or bank to operate within the territory of the Republic of Albania as agents of the Joint Lead Managers in order to conduct marketing and selling activities in connection with the Notes within the territory of the Republic of Albania, which, pursuant to Article 42, point 4 of the Law on Securities, is considered as an activity with transactions in securities and as such must be carried out by commissioning companies or banks that are licensed for such activities by the Authority.

In respect of any such marketing and selling activities carried out in connection with the Notes within the territory of the Republic of Albania, the Joint Lead Managers must inform the Authority on the manner of the issuance and sale, as well as on the method of clearing and rules governing the Notes.

Republic of Italy

The offering of the Notes has not been and will not be registered pursuant to Italian securities legislation and, accordingly, no Notes may be offered, sold or delivered, nor may copies of this Prospectus or of any other document relating to the Notes be distributed in the Republic of Italy, except:

(i) to qualified investors (*investitori qualificati*), as defined pursuant to Article 100 of Legislative Decree № 58 of 24 February 1998, as amended (the "**Financial Services Act**") and Article 34-ter, first paragraph, letter b) of *Commissione Nazionale per le Società e la Borsa* ("**CONSOB**") Regulation № 11971 of 14 May 1999, as amended from time-to-time ("**Regulation № 11971**"); or

(ii) in other circumstances which are exempted from the rules on public offerings pursuant to Article 100 of the Financial Services Act and Article 34-ter of Regulation № 11971.

Any offer, sale or delivery of the Notes or distribution of copies of this Prospectus or any other document relating to the Notes in the Republic of Italy under (i) or (ii) above must:

(a) be made by an investment firm, bank or financial intermediary permitted to conduct such activities in the Republic of Italy in accordance with the Financial Services Act, CONSOB Regulation № 20307 of 15 February 2018 (as amended from time-to-time) and Legislative Decree № 385 of 1 September 1993, as amended (the "**Banking Act**"); and

(b) comply with any other applicable laws and regulations or requirement imposed by CONSOB, the Bank of Italy (including the reporting requirements, where applicable, pursuant to Article 129 of the Banking Act and the implementing guidelines of the Bank of Italy, as amended from time-to-time) and/or any other Italian authority.

General

No action has been or will be taken in any jurisdiction by the Republic or any Joint Lead Manager that would, or is intended to, permit a public offering of the Notes, or possession or distribution of this Prospectus or any other offering material, in any country or jurisdiction where action for that purpose is required. Accordingly, each Joint Lead Managers has undertaken that it will not, directly or indirectly, offer or sell any Notes or have in its possession, distribute or publish any offering circular, prospectus, form of application, advertisement or other document or information in any country or jurisdiction except under circumstances that will, to the best of its knowledge and belief, result in compliance with any applicable laws and regulations and all offers and sales of Notes by it will be made on the same terms.

TRANSFER RESTRICTIONS

As the following restrictions will apply with respect to the Notes, purchasers of the Notes are advised to consult legal counsel prior to making an offer, resale, pledge or transfer of any of the Notes. References to "Notes" in this section should, as appropriate, be deemed to refer to the Notes themselves and/or beneficial interests therein.

By its purchase of Notes, each purchaser of Notes will be deemed to have acknowledged, represented and agreed with the Joint Lead Managers and the Issuer as follows:

1. the purchaser (a) (i) is a QIB within the meaning of Rule 144A, (ii) is acquiring the Notes for its own account or for the account of such a qualified institutional buyer and (iii) is aware that the sale of the Notes to it is being made in reliance on Rule 144A or (b) is purchasing the Notes in an offshore transaction pursuant to and in accordance with Regulation S;

2. the Notes are being offered only in a transaction not involving any public offering in the United States within the meaning of the Securities Act, and the Notes offered hereby have not been and will not be registered under the Securities Act and may not be reoffered, resold, pledged, or otherwise transferred except pursuant to an exemption from or in a transaction not subject to, the registration requirements of the Securities Act and in compliance with any applicable state securities laws;

3. the Restricted Global Certificate and any Restricted Certificate will bear a legend to the following effect, unless the Republic determines otherwise in accordance with applicable law:

   "THE NOTES REPRESENTED HEREBY HAVE NOT BEEN AND WILL NOT BE REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "**SECURITIES ACT**") OR ANY SECURITIES LAW OF ANY STATE OF THE UNITED STATES. THE HOLDER HEREOF, BY PURCHASING THE NOTES REPRESENTED HEREBY, AGREES FOR THE BENEFIT OF THE REPUBLIC OF ALBANIA THAT THE NOTES REPRESENTED HEREBY MAY BE REOFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED ONLY IN COMPLIANCE WITH THE SECURITIES ACT AND OTHER APPLICABLE LAWS AND ONLY (1) PURSUANT TO RULE 144A UNDER THE SECURITIES ACT ("**RULE 144A**") TO A PERSON THAT THE HOLDER AND ANY PERSON ACTING ON ITS BEHALF REASONABLY BELIEVE IS A QUALIFIED INSTITUTIONAL BUYER ("**QIB**") WITHIN THE MEANING OF RULE 144A PURCHASING FOR ITS OWN ACCOUNT OR FOR THE ACCOUNT OF A QIB WHOM THE HOLDER HAS INFORMED, IN EACH CASE, THAT THE REOFFER, RESALE, PLEDGE OR OTHER TRANSFER IS BEING MADE IN RELIANCE ON RULE 144A, (2) IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 903 OR RULE 904 OF REGULATION S UNDER THE SECURITIES ACT, (3) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE), OR (4) TO THE REPUBLIC OF ALBANIA OR ITS AFFILIATES."

4. it understands that the Republic, the Joint Lead Managers, their respective affiliates and others will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements and agrees that, if any of the acknowledgements, representations or agreements deemed to have been made by it by its purchase of the Notes is no longer accurate, it shall promptly notify the Republic and the Joint Lead Managers;

5. if it is acquiring any Notes for the account of one or more investor accounts, the purchaser represents that it has sole investment discretion with respect to each such account and that it has full power to make the foregoing acknowledgements, representations and agreements on behalf of each such account; and

6. it acknowledges that neither the Republic, the Joint Lead Managers nor any person representing the Republic or the Joint Lead Managers, has made any representation to it with respect to the Republic or the offer or sale of any of the Notes, other than (in the case of the Republic) the information contained in this Prospectus, which Prospectus has been delivered to it and upon which it is relying in making an investment decision with respect to the Notes. It acknowledges that the Joint Lead Managers make no representation or warranty as to the accuracy or completeness of this Prospectus.

GENERAL INFORMATION

Authorisation

The Issuer has obtained all necessary consents, approvals and authorisations in the Republic of Albania in connection with the issue and performance of the Notes. The issue of the Notes is authorised pursuant to Law № 9665 of 18 December 2006 "On state borrowing, public debt and state guaranteed loans in the Republic of Albania", as amended, and Law № 63 of 20 September 2018 "On the Eurobond to be issued by the Minister of Finance and Economy and the buyback of a portion of the existing Eurobond, approval of exemptions from taxes and fees and provisions for waiver of immunity in the agreements to be signed by the Minister of Finance and Economy".

LEI Code

The Issuer's LEI code is 254900EDM43U3SGRND29.

Listing of Notes

An application has been made to Euronext Dublin to admit the Notes to listing on the Official List and to have the Notes admitted to trading on the Market; however, no assurance can be given that such application will be accepted. It is expected that admission of the Notes to the Official List and to trading on the Market will be granted on or around the Issue Date, subject only to the issue of the Notes.

The expenses in connection with the admission of the Notes to the Official List and to trading on the Market are expected to amount to approximately €4,540.

Listing Agent

Walkers Listing Services Limited is acting solely in its capacity as listing agent for the Issuer in connection with the Notes and is not itself seeking admission of the Notes to the Official List of Euronext Dublin or to trading on the Market for the purposes of the Prospectus Directive.

Clearing Systems

The Global Certificates have been accepted for clearance through Euroclear and Clearstream, Luxembourg.

In respect of the Regulation S Notes, the ISIN is XS1877938404 and the common code is 187793840. In respect of the Rule 144A Notes the ISIN is XS1877938669 and the common code is 187793866.

The address of Euroclear is Euroclear Bank SA/NV, 1 Boulevard du Roi Albert II, B-1210 Brussels. The address of Clearstream, Luxembourg is Clearstream Banking, S.A., 42 Avenue JF Kennedy, L 1855 Luxembourg.

Legal and Arbitration Proceedings

There are no governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened, of which the Issuer is aware) which may have, or have had during the 12 months prior to the date of this Prospectus, a significant effect on the financial position of the Issuer.

Foreign Language

The language of the Prospectus is English. Certain legislative references and technical terms have been cited in their original language in order that the correct technical meaning may be ascribed to them under applicable law.

No Significant Change

There has been no significant change in the tax and budgetary systems, gross public debt, foreign trade and balance of payments, foreign exchange reserves, financial position and resources and income and expenditure figures of the Issuer since 31 December 2017.

Documents on Display

For a period of 12 months from the date of this Prospectus, copies of the following documents (together with English translations thereof, where applicable) may be inspected, in physical form, during normal business hours at the specified office of the Fiscal Agent for the time being in London:

(a) this Prospectus;

(b) the Agency Agreement (which includes the form of the Global Certificates and the definitive Certificates);

(c) the Deed of Covenant;

(d) English translations of Law № 9665 of 18 December 2006 "On state borrowing, public debt and state guaranteed loans in the Republic of Albania", as amended, and Law № 63 of 20 September 2018 "On the Eurobond to be issued by the Minister of Finance and Economy and the buyback of a portion of the existing Eurobond, approval of exemptions from taxes and fees and provisions for waiver of immunity in the agreements to be signed by the Minister of Finance and Economy";

(e) the budget of the Issuer for the current fiscal year; and

(f) budgetary review bulletins for the last three fiscal years.

Yield

As at the Issue Date and on the basis of the issue price of the Notes, the interest rate of the Notes, the redemption amount of the Notes and the tenor of the Notes, as calculated on the pricing date, the yield to maturity of the Notes is 3.550% *per annum*. This is not an indication of future yield.

THE ISSUER

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Republic of Albania
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To the Issuer as to Albanian law:

State Advocate of Albania
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Tirana
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To the Joint Lead Managers as to English and United States law:

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To the Joint Lead Managers as to Albanian law:

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Eurocol Business Center
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Tirana
Albania

FISCAL AGENT, PAYING AGENT AND TRANSFER AGENT

Citibank, N.A., London Branch
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REGISTRAR

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IRISH LISTING AGENT

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