



**REPUBLIC OF ALBANIA
COUNCIL OF MINISTERS**

**ECONOMIC REFORM PROGRAMME
2026-2028**

15 January 2026

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LIST OF ABBREVIATIONS

AFCOS	Anti-Fraud Coordination Service
AGFIS	Albanian Government Financial Information System
ALL	Albanian Lek
AS	Automatic Stabilizers
ASPA	Albanian School of Public Administration
Bn	Billion
BoA	Bank of Albania
CAB	Cyclically Adjusted Balance
CAPB	Cyclically Adjusted Primary Balance
CCyB	Countercyclical capital buffer
CEFTA	Central European Free Trade Agreement
CMS	Constant Market Share
CoM	Council of Ministers
Cons	Capital Conservation Buffer
CPB	Cyclical Primary Balance
CPI	Consumer Price Index
DCM	Decision of the Council of Ministers
DIVA	Annual Individual Declaration of Income
DPD	General Directorate of Customs
DPT	General Directorate of Taxes
eIDAS	Electronic IDentification, Authentication and trust Services
EIS	European Innovation Scoreboard
ERP	Economic Reform Programme
ESA	European System of Accounts
EU	European Union
EUD	Delegation of the European Union to Albania
EUR	Euro
FC	Foreign Currency
FDI	Foreign Direct Investment
FI	Fiscal Impulse
FINREP	Financial Reporting
FRS	Fiscal Risk Statement
FSDKSH	Compulsory Health Care Insurance Fund
GDP	Gross Domestic Product
GDT	General Directorate of Taxation
GED	Gross External Debt
GoA	Government of Albania
HICP	Harmonised Index of Consumer Prices
HP	Hodrick-Prescott filtering technique
ICT	Information and Communications Technology
IFRS	International Financial Reporting Standards
IMF	International Monetary Fund
INSDEI	National Strategy for Development and European Integration
INSTAT	Institute of Statistics of the Republic of Albania
INT	Interest Expenditures
INTOSAI	International Organization of Supreme Audit Institutions

IPA	Instrument for Pre-Accession Assistance
IRENA	International Renewable Energy Agency
ISSH	Social Insurance Institute
IT	Information Technology
Mn	Million
MoF	Ministry of Finance
MREL	Minimum Requirement for Own Funds and Eligible Liabilities
MTBP	Medium-Term Budget Plan
MW	Megawatt
NA	Normative Act
NIS2	Network and Information Systems Directive 2
NPL	Non-Performing Loans
OBL	Organic Budget Law
OECD	Organisation for Economic Cooperation and Development
OG	Output Gaps
PAR	Public Administration Reform
PAR SG	Public Administration Reform Special Group
PB	Primary Balance
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PIM	Public Investment Management
PIT	Personal Income Tax
PPP	Public-Private Partnerships
PROST	Pension Reform Options Simulation Toolkit
RA	Reform Agenda
RDI	Research, Development and Innovation
RoA	Return on Assets
RoE	Return on Equity
SAA	Stabilisation and Association Agreement
SECO	State Secretariat for Economic Affairs (Switzerland)
SEO	State-Owned Enterprises
SIB	Systemically Important Banks
SIDA	Swedish International Development Cooperation Agency
SIGMA	Support for Improvement in Governance and Management
SME	Small and Medium-sized Enterprises
Struk	Systemic Risk Buffer
TSA	Treasury Single Account
VAT	Value Added Tax
VET	Vocational Education and Training

1. OVERALL POLICY FRAMEWORK AND OBJECTIVES

The Economic Reform Program (ERP) for the period 2026-2028 outlines Albania's key macroeconomic and fiscal policies, aiming to achieve an optimal balance between opportunities and risks. The program's overarching goal are to foster sustainable economic development, stimulate employment growth, and ensure the medium and long-term sustainability of public finances. Concurrently, it aims to safeguard and reinforce the country's macroeconomic stability. A dedicated final section of the ERP focuses on analysing the set of fundamental structural reforms that Albania has launched under the "New Growth Plan" framework. Through comprehensive qualitative and quantitative analysis, this section demonstrates how these ambitious reforms are expected to substantially enhance the country's potential growth trajectory over medium and longer horizons, and also the strategic importance of this new European Union initiative for Albania and the Western Balkan region, highlighting its potential to accelerate economic convergence with EU standards.

Over the last years, Albania's economic performance has showcased remarkable resilience despite facing significant challenges. The nation grappled with a series of rapid and severe external shocks, but despite these great challenges, the country's key economic and financial fundamentals, as well as overall macroeconomic stability, have demonstrated notable resilience. Notably, the economy adapted effectively, surpassing initial expectations with robust economic growth in each of these years. In 2025 as well Albania's economy has continued to perform strongly, driven primarily by growth in the services and construction sectors, supported by private consumption, investments and exports especially in tourism. The resilience and adaptability shown during this period positions the country for further and good growth in the future.

Fiscal policy remains firmly centred on fiscal consolidation as a cornerstone for maintaining macroeconomic stability. This strategic approach is crucial for mitigating the effects of economic shocks and hardships, and creating a foundation for achieving a relatively high, sustainable, and inclusive economic growth trajectory. Within this framework, fiscal policy targets a gradual reduction in public debt, while restoring the primary balance consistently to a positive level started from 2023 and ongoing. This commitment aligns with the stipulated fiscal rules in the Organic Budget Law (OBL), emphasizing the adherence to sound fiscal principles for long-term economic resilience and stability. The primary balance is targeted at an average of around 0.6 percent annually over the medium-term period (2026-2028). Notably, commencing from the fiscal year 2024 and onward, this target assumes a legally binding status. As stipulated in the OBL, it is mandated that starting from 2024 and for each subsequent year, the primary balance will be no less than zero, ensuring a balanced or positive stance. More specifically, in this round of macro-fiscal programming the primary balance target is neutral for 2026 and positive of 0.8 percent in 2027 and 1.0 percent in 2028.

Consequently, this commitment to fiscal prudence is expected to steer the gross public debt on a downward trajectory, aligning with the respective "debt-brake" fiscal rule. Anticipated figures for 2025 indicate a decline in public debt to around 54.1 percent of GDP from approximately 54.2 percent in 2024. The trend is set to persist, with an expected further reduction to approximately 53.6 percent in 2026. According to the actual baseline scenario, public debt is expected to decrease to around 52.7 percent by 2027, with a subsequent decline in the longer term projected to approximately 46.4 percent by 2031.

Alongside fiscal consolidation, the government is committed to maintaining a prudent balance between current and capital expenditures. Our focus is on directing central government's capital expenditures, representing the bulk of public investments, to consistently exceed 6.0 percent of GDP annually throughout the 2026-2028 budgetary period with an average of 6.4 percent per year, including here the new public investments that will potentially be enabled within the New Growth Plan implemented by the European Union with the final goal of a substantial upward shift of potential growth in the countries of the Western Balkans. In tandem, the budget deficit is targeted to average 1.7 percent annually over the same timeframe.

A positive current fiscal balance, consistent with the “golden rule” of the budget, underpins this fiscal strategy. The current fiscal balance is projected to average +4.6 percent of GDP annually from 2026 to 2028, reflecting the government’s commitment to sustainable economic management.

2. IMPLEMENTATION OF THE POLICY GUIDANCE

Policy Guidance 1

1.1 Implement the Medium-Term Budget Plan (MTBP) and use any savings from capital expenditure under-execution to reduce the budget deficit.

The Medium-Term Budget Programme has been implemented in accordance with the Organic Budget Law and the Economic and Reform Program 2025-2027. Budget execution throughout 2025 has adhered to the ceilings and priorities set out in the MTBP, ensuring consistency between annual budgetary decisions and medium-term fiscal objectives.

In terms of fiscal consolidation, Albania has demonstrated a prudent approach to budgetary management. During 2025, the budget law was revised, resulting in a reduction of the legal deficit ceiling from the level initially approved in the annual budget law. This revision reflected both a commitment to fiscal discipline and the reallocation of resources, including savings generated from capital expenditure under-execution. Furthermore, preliminary fiscal data indicate that the final deficit outturn for 2025 is expected to be lower than even the reduced revised legal ceiling. This outcome underscores the government's commitment to fiscal prudence and is fully consistent with the intent of this Policy Guidance, namely, to utilize budgetary savings to strengthen the fiscal position. This approach reinforces Albania's commitment to a sustainable managing of public finances and maintaining a downward trajectory in the public debt-to-GDP ratio.

1.2 Implement the Medium-Term Revenue Strategy, adopt the property tax law, and based on the tax expenditure review prepare proposals to reduce tax expenditure, prioritizing the elimination of exemptions lacking sound policy justification.

After the approval of the Medium-Term Revenue Strategy with the DCM dated 26.12.2024, the Minister of Finance issued the Order No. 14, dated 24.01.2025, “On the Establishment of the Steering Committee and Technical Secretariat for the Monitoring Process of the Medium-Term Revenue Strategy and the Action Plan 2024–2027”, for establishing the MTRS Monitoring Structures. At the end of March 2025, the Steering Committee approved and endorsed at the Minister of Finance, the 2024 MTRS Monitoring Report. According to this Report, the 2024 progress under the MTRS has been satisfactory, with most targeted performance indicators fully achieved. Mostly important, the revenue growth target has been met and exceeded. The Six-Month Monitoring Report of the Medium-Term Revenue Strategy (MTRS) was prepared during July 2025 and provides the second monitoring update and assesses the progress during the first half of 2025.

Property tax law

As part of a reform to modernize and strengthen the real estate taxation system, the Ministry of Finance, in cooperation with the General Directorate of Property Tax and the Swedish Tax Agency, has drafted the Law “On the Real Estate Tax.” The draft introduces taxation based on market value, using a methodology aligned with international valuation standards, and expands the categories of properties subject to tax. Finalized in June 2025, the draft law is currently under external coordination with line ministries and is planned to be approved by Council of Ministers within 2025.

In parallel, the Ministry of Finance revised building reference values nationwide (excluding the Municipality of Tirana, updated in 2023), as existing values dated back to 2016 and were significantly

below market levels. Following Prime Minister's Orders No. 19 (30 January 2024) and No. 218 (1 November 2024), new average reference prices were determined for major and additional cities, including coastal areas, with completion by March 2025. In July 2025, the draft decision and new reference prices were released for public consultation, with both the new law and updated reference values scheduled to enter into force on 1 January 2026.

Tax expenditure review:

Albania prepared the Report on Evaluation of Tax Exemptions in June 2025, in accordance with the deadlines set out under the National Reform Agenda 2024–2027, which is part of the European Union instrument “Reform and Growth Facility for the Western Balkans”. The report does a detailed assessment of tax exemptions related to value-added tax, corporate income tax, excise duties, and personal income tax with the view to phase out, in total of 74 tax expenditures, out of which 47 relate to VAT, 4 to excise duties, 12 to personal income tax, and 11 to corporate income tax. The assessment was conducted based on criteria of compliance with EU legislation, international best practices, lessons learned from international experience, and evidence on effectiveness and efficiency.

The report also includes a detailed analysis of the cost of each exemption, particularly in VAT, using a model developed by the World Bank and further enhanced by the IMF. It clearly assesses compliance with the EU acquis, especially regarding VAT and excise duties, and provides recommendations on alignment in cases that do not comply with EU requirements.

Also, the Ministry of Finance has prepared the Tax Expenditure Report for 2023–2024 with the technical assistance of the International Monetary Fund (IMF), that is published at the website of Ministry of Finance.

1.3 Prepare the draft legislation for establishing a fiscal council, incorporating the European Commission's comments.

In the context of strengthening the institutional framework of fiscal policy, in accordance with the obligations arising from the *acquis Communautaire* of the European Union (specifically Chapter 17: Economic Policies), as well as fulfilling the commitments undertaken within the framework of the Public Finance Management Strategy 2023-2030, the establishment of a Fiscal Council constitutes an important reform for increasing transparency, accountability and long-term sustainability of public finances. In support of this process, Albania has benefited from technical assistance from a team of international experts (mainly from the World Bank, etc.), financed by the European Commission, for the preparation of the draft law for the establishment and regulation of the Fiscal Council of Albania. This initiative is in line with the requirements of Directive (EU) 2011/85 and supports Albania's progress towards integration into the European Union. The draft law defines the legal framework for the establishment, organization, functioning and responsibilities of the Fiscal Council of Albania as an independent institution. Its main purpose is to promote fiscal discipline, transparency and long-term sustainability of public finances.

A dedicated technical working group was established within the Ministry of Finance to advance this work. Significant progress has been achieved, with a first comprehensive draft law now completed and agreed upon at the technical level. The process will continue with internal deliberations within the Ministry of Finance, followed by endorsement at the political level. Subsequently, the draft law will be shared and closely consulted with the European Commission (DG ECFIN) until a mutually agreed version is reached. The finalised proposal will then be submitted to the Council of Ministers for approval and thereafter to Parliament for adoption.

Policy Guidance 2:

2.1 Strengthen capacity in the Fiscal Risk Directorate in the Ministry of Finance to enhance fiscal risk assessment, including monitoring of SOEs, and publish the annual Fiscal Risk Statement based on 2024 data, covering a wide range of risks as well as mitigation

measures.

Fiscal Risk Directorate in the Ministry of Finance was established in 2024 and as of November 2025 the current structure 1+4 (1 director+4 specialists) has filled the position of director and 2 specialists (2 specialist positions are still vacant). Nevertheless, Fiscal Risk Directorate continues to work closely with the Budget Risk Unit (BRU), under the oversight of the Budget Management Directorate. Regarding strengthening capacities in the Fiscal Risk Directorate/BRU, during 2024, technical assistance and missions were conducted with international partners (the IMF and the World Bank), with a focus on drafting the Fiscal Risk Statement (FRS) as well as monitoring and analysing the fiscal risks of state-owned enterprises (SOEs). During 2025, technical assistance has continued with international partners, focusing on enhancing risk monitoring capabilities, specifically for Fiscal Risk Statement, the improvement of monitoring and analysing fiscal risks from SOEs and natural disasters. By the end of May 2025, the 2024 Fiscal Risk Statement was finalized and submitted to the Council of Ministers for information purposes. Based on the relevant Guideline no.35 dated 29.12.2022 “For standard procedures of reporting and monitoring fiscal risks for General Government and other public sector units” the Fiscal Risk Statement contains the information for the main fiscal risks (macroeconomic developments, general income, expenditures and arrears, public debt and available liquidity, local government finances, concessions/PPP contracts, state-owned enterprises, contingent liabilities, other unforeseen events such as natural disasters etc.), risk mitigation measures and other analytical data.

2.2 To strengthen long-term sustainability of public finances and underpin any pension reform, enhance evidence-based analysis and long-term projections using a pension modelling framework.

Albania has conducted a long-term analysis of the sustainability of public finances, with a focus on the pension system, using the PROST model (Pension Reform Options Simulation Toolkit), as part of technical assistance provided by the World Bank in 2025. The projections are based on the most recent macroeconomic and fiscal framework for the period 2026–2028, as well as demographic and financial indicators for the years 2022–2024 from INSTAT and the Social Insurance Institute.

These factors are further supported by structural measures included in Albania's National Reform Agenda 2024–2027, which aims to boost labour force participation (especially among women), improve human capital quality, and strengthen contribution collection through tax administration reforms and formalisation of employment.

The analysis is based on reliable macroeconomic and demographic assumptions. Real GDP growth has been projected in line with the official macroeconomic framework up to 2035, while for the following years a constant rate of 3% has been used as a long-term assumption. The inflation rate is assumed to remain at 3%, consistent with the inflation target set by the Bank of Albania. The scenario reflects current policy settings, including the most recent decision of the Council of Ministers (Decision No. 540, dated 29.09.2025), which establishes an annual pension indexation rate of 2.5%. Despite the challenges of population aging, the pension system appears to be on a fiscally sustainable trajectory.

2.3 Enhance the operationalization of the public investment management framework, including the National Single Project Pipeline, and ensure that the projects entering the MTBP are mature and of good quality, in order to avoid under-execution of public investments.

The implementation of the National Single Project Pipeline (NSPP) has been significantly strengthened through comprehensive reforms to the public investment management framework. The (NSPP) list was most recently revised through DCM No. 4351, dated 31.07.2025, “On the Approval of the Priority Policy

¹ DCM no.447, dated 26.07.2023 “On the approval of the Priority Policies Document 2024-2026”, DCM no.161, dated 20.03.2024 “On the approval of the Priority Policies Document 2025-2027”,

Document 2026–2028,” and will continue to be updated regularly to ensure that approved projects are integrated into the budgetary cycle, thereby enabling the efficient allocation of funds. As of July 2025, the NSPP includes 48 projects labelled as ‘matured’, 35 projects as ‘partially matured’ and 37 projects as ‘immatured’. Aligning the NSPP with the National Strategy for Development and Integration (NSDI), as well as with sectoral and cross-sectoral strategies, strengthens the strategic orientation of public investments and supports the advancement of government priorities. Within the framework of implementing reforms in public investment management procedures, Council of Ministers Decision (DCM) No. 887/2022, “On Public Investment Management Procedures,” was amended by DCM No. 70, dated 14.02.2024, and DCM No. 180, dated 20.03.2025, which aimed to further strengthen the discipline of public investment management mechanisms. This change required that all projects submitted for inclusion in the National Single Priority List (NSPP) must comply to a standardized set of rules. Projects will be budgeted only if they are matured and have submitted their feasibility study. Projects that have been matured in the NSPP but have not been budgeted within three years, must undergo a review of the feasibility study to be budgeted. Furthermore, the legal framework of DCM No. 887 was further completed, with Instruction No. 11, dated 28.05.2025, “On Determining the Financial Limit of the Full Project Value” issued by the Minister of Finance which aimed to improve the public investment management process and ensure better alignment between NSPP-prioritized projects and the Medium-Term Budget Program (MTBP). This measure established higher financial thresholds for project inclusion in the NSPP, thereby ensuring that project selection is more closely aligned with sectoral priorities and the Medium-Term Budgetary Program (MTBP), with EUR 25 million set as a threshold for strategic transport projects and EUR 15 million as a threshold for projects in other strategic sectors, including energy, digitalization, social development and the environment, thereby maintaining the pipeline’s focus on strategic, high-impact initiatives. Moreover, Guideline No. 22, dated September 15th, 2025, “On determining the methodology for preparing the full feasibility study and the simplified feasibility study” was adopted, reinforcing the Ministry of Finance’s gatekeeping role and enhancing its oversight capacity over public investments. Additionally, SASPAC is collaborating with EU4GG TA to develop a more robust project prioritization methodology. Lastly, to ensure that projects entering the Medium-Term Budget Program (MTBP) are mature and of high quality, and to avoid the under-execution of public investments, the Government has significantly strengthened the capacities of line ministries and budgetary institutions in implementing Public Investment Management (PIM) procedures. By January 2025, 100% of the training curriculum for the implementation of PIM procedures with Line Ministries and Budgetary Institutions had been successfully completed, while negotiations were undertaken to extend the training cycle throughout 2025, in cooperation with ASPA and the World Bank. Between January and May 2025, two training sessions were conducted on the topic “New Procedures in the Field of Public Investments” followed by two additional sessions during July–August 2025 with various public administration institutions. ASPA has scheduled further trainings to be delivered during the second half of 2025. These sustained capacity-building efforts ensure that institutions responsible for developing and submitting public investment projects are better equipped to prepare mature, well-designed, and fully compliant project proposals, thereby supporting the inclusion of only high-quality projects in the MTBP and helping to prevent under-execution of public investments

Policy Guidance 3:

3.1 Continue to calibrate monetary policy appropriately to sustainably anchor inflation expectations at levels consistent with the target and ensure price stability.

DCM no.553, dated 12.08.2024 “On the approval of the Priority Policies Document 2025-2027”,
 DCM no.91, dated 12.02.2025 “On the approval of the Priority Policies Document 2026-2028”,
 DCM no. 435, dated 31.07.2025 “On the approval of the Priority Policies Document 2026-2028”.

The Bank of Albania's proactive approach to monetary policy in recent years has been fully aligned with this recommendation. In response to stronger than expected exchange rate and recurring supply-side shocks to consumer prices, particularly in food prices, the Bank of Albania once again reduced the key policy rate in July 2025, with the aim of avoiding the risk of de-anchoring economic agents' inflation expectations. Monetary policy signals were transmitted effectively to the market, helping to guide medium-term inflation expectations toward the target and anchoring them close to the 3% level. Going forward, the Bank of Albania will continue to implement a flexible, data-driven approach, allowing for timely and balanced responses to any deviations of inflation from the target. Continuous improvements in the Bank's analytical and forecasting framework enable a more accurate assessment of inflationary pressures and the risks that may arise from domestic or external developments.

3.2 Strengthen further the reporting across the banking system, *inter alia* by consistently applying IFRS9 standards, and enhance risk-based supervision in line with best international and European practices, including by assessing and addressing eventual risks arising from exposures in the real-estate sector. Ensure that the national development bank has an operational framework that mitigates moral hazard and fiscal risks and complies with best practices in terms of governance as well as appropriate supervision and regulation applicable to other deposit-taking institutions to ensure transparency, sound lending practices, adequate deposit protection and a level playing field in the banking sector. Ensure that the national development bank has an operational framework that mitigates moral hazard and fiscal risks and complies with best practices in terms of governance as well as appropriate supervision and regulation applicable to other deposit-taking institutions to ensure transparency, sound lending practices, adequate deposit protection and a level playing field in the banking sector.

The official accounting framework in Albania is based on IFRS. Saying that, all banks in Albania are obliged to apply international reporting standards, including IFRS 9, for preparation, audit and publication of their financial statements, effective since 2019. Meanwhile, Bank of Albania is working in building the prudential reporting framework in harmonization with EU criteria and the IFRS standards. In this course, Bank of Albania is working for the adoption of the new FINREP reporting framework as of the upcoming EBA standard, to build a complete set of implementations of the European norms in the supervisory practices. Based on Regulation no. 44, dated 4.10.2023, "On the reporting of data, the identification and monitoring of indicators on lending and investments for real estate," the Supervisory Council of the Bank of Albania adopted decision no. 25, dated 7.5.2025, on setting upper limits for the lending standards of new loans for residential real estate (otherwise known as "borrower-based measures"). This decision aims to preserve financial stability in the face of rapidly rising housing prices, by safeguarding borrowers' repayment capacity and the quality of the banking sector's exposures to the real estate market. The selected indicators were the "Loan-to-Value at disbursement (LTV_D)" and the "Debt-Service-to-Income at disbursement (DSTI_D)." Analysis conducted up to the end of the first half of 2025, based on data reported by banks up to December 2024, shows that the average values of the indicators subject to the measures remain below their respective upper limits for the majority of cases.

The Albanian Development Bank is working closely with Italy's Casa dei Depositi e Prestiti (CDP) to develop a similar governance model and structure that will be aligned with the EU acquis as well as ensure that best practices are followed in terms of risk management, transparency, and safeguarding the public interest. The purpose of the Bank is to assist households, firms and sectors that are currently unable to access the formal banking sector or paying extraordinarily high borrowings costs to do so. Therefore, the ADB shall not be considered as a competitor to the current banking system, tilting the playing field, but as a complimentary institution providing access to additional sectors of the Albanian economy and society.

3. MACROECONOMIC FRAMEWORK

Recent economic developments

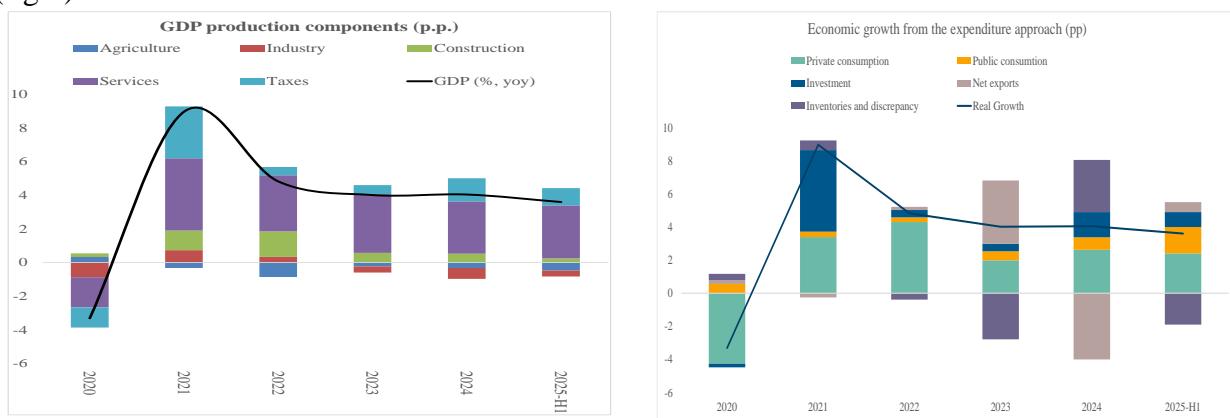
Despite rising global uncertainties in 2025, the Albanian economy continued to demonstrate resilience underpinned by robust growth and sustained macroeconomic stability. Economic activity continued to expand in line with potential, accompanied by rising employment and wages. Meanwhile, inflation moved closer to the Bank of Albania's target, the financial system posted strong performance, and other macroeconomic indicators, including external and public debt, improved. These achievements were also reflected in the upgrade of Albania's sovereign credit ratings by international institutions.

The medium-term outlook remains positive, underpinned by expectations for stable economic growth and inflation returning near target during 2026. Nevertheless, global uncertainty remains elevated, while the country's EU accession prospects offer opportunities to advance structural reforms and support long-term development.

Economic activity expanded by 3.6% in the first half of 2025, compared with 4.0% in the previous year. Growth was driven primarily by domestic demand, which increased by 4.6%, supported by higher private and public consumption as well as investment. Private consumption and investment grew at a more moderate pace, 3.3% and 4.1%, respectively, compared with 3.7% and 5.8% in 2024, while public consumption accelerated. At the same time, net external demand contributed positively, reflecting a 1.6% narrowing in the trade deficit. Imports grew at a slower rate, whereas exports increased by 2.5%, outpacing the performance of the previous year. The improved export dynamics were underpinned by a smaller decline in goods exports, whereas services exports—particularly tourism—experienced a more moderate expansion.

From a sectoral perspective, the services sector remained the main contributor to economic growth, adding 3.1 percentage points in the first half of 2025. Within this sector, “Public administration, defense, education, and health” and “Real estate activities” provided the most stable contribution. Conversely, the contribution of “Trade, accommodation, and food services” diminished, reflecting a slowdown in tourism related activities. The construction also provided a positive contribution, expanding by 2.3%, though its growth moderated in line with more subdued investment dynamics. Meanwhile, industrial and agricultural sectors continued to underperform, with industrial activity contracting across both extractive and manufacturing industries.

Chart 3.1.1: Real GDP growth decomposition from a sectorial perspective (left) and aggregate demand (right)



Source: Instat, BoA

The labour market continued to improve, although labour shortages remain a constraint on future economic expansion. Employment in the non-agricultural private sector rose by 4.3% in the first half of the year, driven primarily by the services sector. Conversely, a decline in agriculture employment led to a 0.8% reduction in total private sector employment, reflecting a gradual shift in the labour force from a contracting sector toward one with stable growth. The unemployment rate fell to 8.5% at the end of the first half of the year, down from 8.8% at the end of 2024. At the same time, private sector wages grew by 9.6% in nominal terms and 7.4% in real terms, marking an acceleration compared with the previous year. These developments have supported household purchasing power, while highlighting the continued tightness in the labour market.

Overall, the drivers of economic growth remain solid. The healthy financial position of the private sector, together with a positive confidence climate and favourable financing conditions, has continued to stimulate growth in private consumption and investment. At the same time, prudent and well-coordinated macroeconomic policies have ensured price stability and strengthened economic resilience. In particular, the pursuit of proactive monetary policy has helped anchor inflation expectations and prevent the emergence of second-round effects, despite persistent supply-side shocks to prices. During 2025, monetary policy adopted a more accommodative stance by lowering the key interest rate to 2.5%, from 2.75% at the end of 2024.

The external position of the economy remains stable, while the full financing of the current account deficit through foreign investment continues to exert appreciation pressures on the lek. The current account deficit stood at 4.3% of GDP in the first half of 2025, marking a moderate improvement compared with the same period a year earlier – when the deficit was at 4.8% of GDP – primarily driven by gains in the services and income accounts. On the financing side, foreign direct investment remains the main financing source of current account deficit, covering 106.9% of its value in the first half of 2025. This reflects an excess supply of foreign currency in the market.

The lek continued to appreciate 2025, albeit at a more moderate pace than in previous years. Its annual appreciation against the euro reached 3.1% during the first ten months of the year, compared to 8.7% and 7.8% in 2023 and 2024, respectively. In October, the EUR/ALL exchange rate hovered around 96.7 lek, reflecting a year-on-year decline of 1.6% from the level recorded in December of the previous year. The slower pace of appreciation reflects both the underlying dynamics of the external sector and the foreign exchange market interventions conducted by the Bank of Albania.

Albania has strengthened its buffers against potential external shocks. The external debt-to-GDP ratio fell to 40.5% in the first half of 2025, while long-term repayment and liquidity indicators remain strong. At the same time, international reserves increased to 27.9% of GDP, further enhancing the economy's overall resilience.

Consumer price inflation was 2.2% during the first ten months of 2025, almost the same as a year earlier. In the first quarter, inflation remained low at 2.0%, reflecting the impact of unprocessed food and fuel prices. It gradually increased to 2.3% and 2.4%, in the second and third quarters respectively, mainly due to higher rent inflation, while in October it stabilized at the same level of 2.3%. From a macroeconomic perspective, the increase in inflation reflected stronger domestic inflationary pressures, while imported ones remained weak, influenced by low international prices and the exchange rate appreciation behavior. Imported inflation and supply-side effects on food prices have kept inflation below the 3% target.

The composition of inflation by components has shifted compared to previous year. During 2025, the

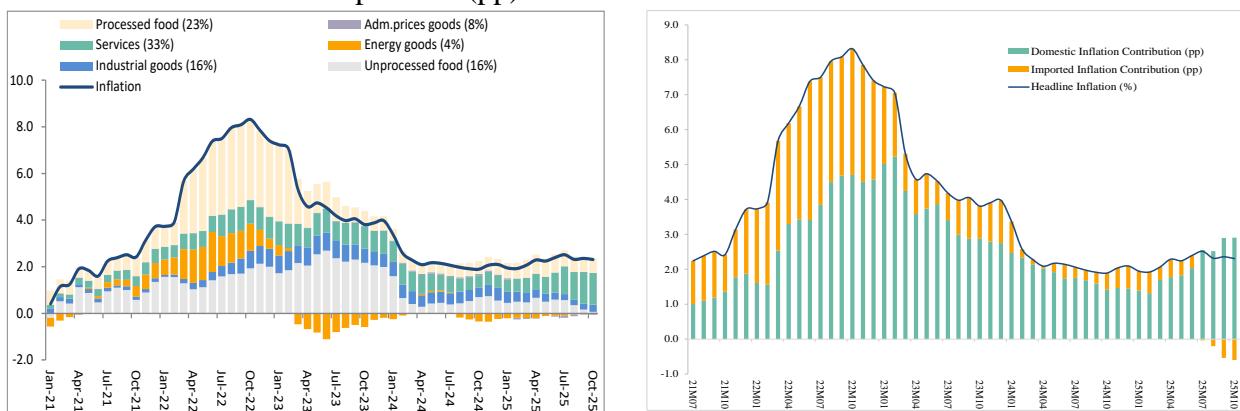
contribution from service inflation increased by 0.2 percentage points, while the contribution from goods inflation decreased by the same amount. Service inflation averaged 2.8% during the first 10 months of 2025, up from 2.2% in 2024. This increase was mainly driven by higher contributions from the rent prices, which rose to 0.9 percentage points in October from 0.1 at the beginning of the year. Other services, mainly tourism-related ones, also increased, but at a gradual pace. On the other hand, industrial goods inflation declined to 2.2% from 3.3% in 2024. Meanwhile, fuel inflation slowed its decline, moving to a positive but low contribution in October, from -0.2 percentage points in January. Regarding food inflation, the rise in processed food inflation was offset by a decrease in unprocessed food inflation, with respective inflation rates of 3.1% and 2.7% during the year. Additionally, new regulated electricity prices for consumers were implemented in February 2025, which directly reduced the average headline inflation by approximately 0.1 percentage points over the year.

Domestic and long-term pressures strengthened their dominant role in headline inflation formation during the first 10 months of 2025. This was mainly due to stronger economic activity, the positive position of the business cycle, the strong labor market, and higher rent prices. Meanwhile, the Bank of Albania's flexible monetary policy has contributed to better anchoring inflation expectations to the medium-term target.

In this context, core inflation and domestic inflation reached 2.7% and 2.5%, respectively, remaining above headline inflation due to the increase of rent inflation. In the absence of rent price increases, both core and domestic inflation would have remained stable, at similar levels to those of the first quarter, previous year, and their long-term averages.

In contrast, imported inflation pressures weakened further this year, partially offsetting the increases from domestic inflation components. Imported inflation fell to minimum historical levels driven by low prices in international markets and the appreciation behavior of the exchange rate. Its contribution to overall inflation was around 7.3%, decreasing by about 10 percentage points about 10 percentage points compared to the average of the previous year.

Chart 3.1.2: Inflation decomposition (pp)



Source: INSTAT, Bank of Albania

The financial market has remained stable, with risk premia at low levels. The reduction of the policy rate to 2.5% in July was transmitted swiftly to the money market and is gradually passing to the other market segments. Deposit interest rates have declined from an average of 2.0% last year, to around 1.7% in the first ten months of this year. Likewise, the 12-month T-Bill yield declined to 2.50% in November, from 2.74% at the end of last year, moving broadly in line with the policy rate. The shift in government borrowing from short-term to long-term maturities, amid continued strong demand for bonds, has placed additional downward pressure on the 12-month yield. As a result, its spread relative to the policy rate has narrowed further over the past three months. During the year, long-term bond yields have shown higher

volatility compared to previous years, marked by a significant decline in the first half of the year, followed by an increase from June onward. This pattern largely reflects the rise in the government borrowing in longer maturities. Despite these fluctuations, long-term yield spreads relative to the 12-month yield have declined in 2025 for the third consecutive year.

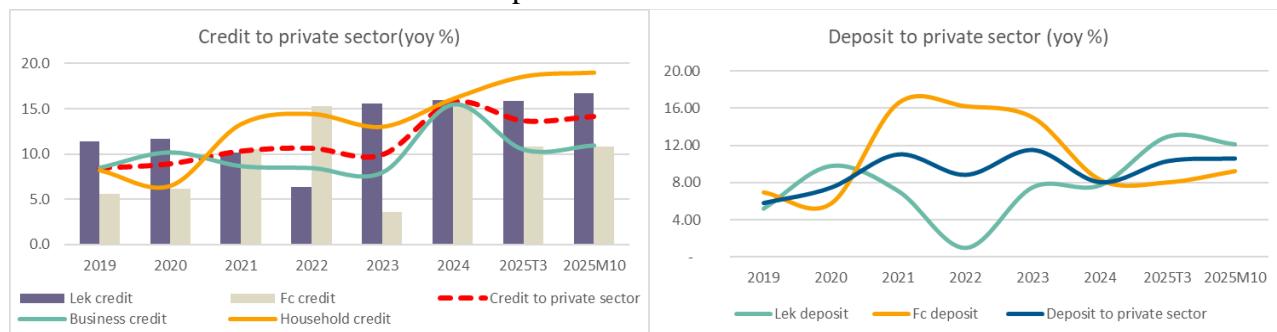
Beyond the usual volatility, the overall trend in lending rates indicates a slight downward tendency, while margins relative to the policy rate and the 12-month yield have remained low for nearly three years. Interest rate reductions are particularly evident for consumer loans, where competition among banks has been strong. The average interest rate on consumer loans fell to 8.5% in the first ten months of this year, down from 9.1% last year, while mortgage rates declined to 3.8% from 4.1% a year earlier. Over the same period, the average lending rate for businesses stood at 6.5%, down from 6.6% last year, with a more pronounced decline in small loans – typically associated with small businesses.

In line with the easing financial conditions, credit growth to the private sector has remained robust, driven by strong demand from both enterprises and households. This momentum reflects the solid performance of the Albanian economy and the positive outlook among economic agents. On the supply side, heightened competition among banks and improvements in financial infrastructure have further facilitated access to finance and supported lending expansion. The average portfolio growth of 15.2% in the first ten months is slightly higher than the 14.4% recorded in 2024 and well above the 10% average of the last five years. As a result, the ratio of credit to the private sector to GDP has increased, reaching 33%, close to the highest levels of the decade.

Credit growth has continued to be broad-based, supported by increased lending to both business and households for consumption and investment purposes. In particular, credit for investment has expanded strongly, reflecting the financing of large projects in infrastructure and green energy production. However, its annual growth rate has trended downwards during 2025, close to 15.7% from 19.2% in 2024, largely due to statistical base effect. On the other hand, credit for liquidity has demonstrated an improvement in growth rates, reaching 10.6%, in line with the expansion of economic activity. Overall, the banking sector continues to support businesses through financing in strategic sectors, such as tourism and energy.

Lending to households has strengthened during the year, with the annual growth rate averaging 17.6%, from 14.6% a year ago. This expansion reflects both strong household demand for financing and banks' willingness to accommodate it by offering favorable financial conditions – both in terms of pricing and non-price elements. These include increases in loan size and longer maturity for both consumer and mortgage products. Annual growth in consumer and mortgage lending reached 19% and 18%, respectively, exceeding their 2024 averages by around 3.8 percentage points and 1.5 percentage points. Meanwhile, banks tightened lending standards to households in the third quarter, reflecting the macroprudential measures that came into force in July 2025.

Chart 3.1.3: Private sector loans and deposits.



Source: BoA

An analysis of credit dynamics by currency shows that lending in lek has maintained the high annual growth rates of previous years, marking an increase of 15.3% in 2025. This trend reflects favorable financing conditions in domestic currency relative to foreign currency, abundant liquidity of the banking sector, and heightened awareness among economic agents of exchange rate risk in line with the de-euroization measures taken by Bank of Albania. On the other hand, foreign currency credit rose by 15%, which although slowing on a month-to-month basis, remains higher than 2024. Reflecting these developments, the share of lek loans in total credit has further increased to 58.4%, up by 8.3 percentage points compared with the end of 2019.

Private sector deposits grew at a strong pace in 2025, reflecting increased confidence in the banking sector and higher savings. Overall, the deposits increased by 9.2% during the year, primarily driven by lek deposits, which increased by 10%. Lek deposit growth was supported by ample liquidity in the economy and a shift among households from investing in securities toward placing their saving with banks. As a result, the share of lek deposits in total deposits recorded a modest improvement, reaching 48%.

On the other hand, foreign currency deposits grew by 8.4% during the year, marking a slowdown from 11.4% recorded in 2024. Deposit dynamics by customer type show that the overall performance of private sector deposits has been driven by a steady 10% increase of households' deposits, while business deposits grew more slowly at 6%, consistent with broad macroeconomic developments.

Financial Sector

Bank of Albania's assessment of the financial sector performance and risks to the banking activity during the third quarter of 2025 remains largely unchanged compared to the previous quarters. The 8% annual expansion and the 6% January-September increase in the banks' aggregate balance sheet was driven by loans and investment in securities, while deposits and the capital base have also increased. The negative statistical effect of the Lek appreciation in the Lek-reported foreign currency denominated part of the balance sheet has declined significantly over the last 12 months, and the adjusted annual growth rate would be only 0.4 p.p. higher than the official reported value. The share of foreign currency assets and liabilities to the total balance sheet value remained almost unchanged at around 50%. The net exposures vis-à-vis non-residents remain positive, with assets exceeding liabilities by ca. 420 bn Lek and the ratio of this position against banks' total assets has stood at 20% over the last few years.

The stock of outstanding loans expanded by 8% during the first nine months of 2025 and by 11% in annual terms until the end of September. More than half of the annual growth is linked to a 22% increase in the portfolio of household loans in domestic currency driven by growth in the stock of residential real estate loans, while the stock of business loans in foreign currency and in domestic currency grew by approximately 7% y-o-y. The 8 bn Lek increase in the stock of outstanding loans over Q3 was the result of a 13 bn Lek increase in the stock of domestic currency loans and a decline of 5 bn Lek in the stock of unhedged FC loans, while the stock of other FC loans remained unchanged. Unhedged loans currently make up 10% of the overall bank loan portfolio down from an average of 18%, 13%, and 11% in 2022, 2023 and 2024. However, compared to one year ago the stock of unhedged FC loans recorded a 3% increase due to the expansion of the stock of unhedged business loans. The volume of new bank loans for the first 9 months was 8% higher compared to the same period of 2024, almost exclusively as a result of a 23% growth in the flow of new loans to the household sector, directed mainly to the financing of the purchase of residential real estate. The average interest rate for new loans in September was 6.3%, remaining unchanged from the level at the end of 2024 and from one year earlier. The average monthly rate for new loans in lek and in euro was 6.6% and 5.9%, respectively.

Deposits increased by 7% between January and September and by 9% in annual terms until the end of September and their term structure remained stable. The categories with the highest growth rates were current accounts, time deposits, household deposits and deposits in domestic currency, which expanded by 13% compared to a 5% annual growth in FC deposits. The interest rates on deposits have shown no significant change compared to the levels of December 2024 but were slightly lower compared to the levels of September 2024.

The capitalization levels of the banking sector remain well above the 12.0% minimum regulatory requirement with the capital adequacy ratio rising to 20.3% at the end of September from 19.2% in June and 19.5 in March 2025. Except for one bank, all banks have a ratio higher than 17.8% and 5 banks have a ratio higher than 20%. The 1 p.p. increase in the Capital Adequacy Ratio from Q2 to Q3 was the result of a 6% increase in the regulatory capital of banks while the stock of risk-weighted assets remained unchanged. Banks are currently required to meet several capital requirements, including macro prudential capital buffers and requirements for eligible regulatory capital instruments and liabilities (MREL). To strengthen their capital positions, during the period banks injected additional capital, increased retained earnings, and expanded the use of subordinated debt.

The net financial result of the banks at the end of September was positive (26.2 bn Leks) but slightly lower than the result reported at the end of September 2024 (27.8 bn Leks). Total income for the period was somewhat higher, as the decline in net interest income was offset by higher non-interest income, mainly from fees for banking services and higher profits from investment in financial instruments. The small decline in the net financial result led to some decline in the profitability indicators, with return on assets (RoA) dropping to 1.6% and return on equity (RoE) falling at 15.8%, compared to 1.9% and 18.3% a year earlier. Provisions for asset quality had a positive impact on banks' profits, as recoveries from other instruments were higher compared to a year earlier. The level of cost coverage by banks' income remained satisfactory, despite operating expenses growing faster than income.

The quality of the bank credit portfolio has shown a slight deterioration, with the NPL ratio jumping to 4.4% at the end of September from 4.0% in June and July. This indicator, however, was below the 4.6% level reported by banks in September 2024. The expansion in the stock of nonperforming loans over the last two months reflects the decline in the quality of loans in Lek, loans to the private sector and long-term loans, and is linked to the portfolio of one systemic bank because of some client-requested loan restructuring. For individual portfolios categorized by sector, currency and maturity, the highest NPL ratios in September were observed in the loans for the private sector and medium-term loans (5.5%), while the portfolio of real estate loans held primarily by households, has an NPL ratio of 2.4%. Over the first nine months of 2024 the stock of nonperforming loans increased faster than the overall stock of outstanding loans (13% compared to 8%). Since the jump in the stock of NPL can be attributed to a one-off event and one specific bank, BoA's assessment of credit risk for the banking sector has not changed since July 2025. The overall level of loan loss provisions has followed a similar path to that of the nonperforming loans, with the most significant increase observed in the affected bank.

The assessment of the liquidity risk of the banks has not changed over the third quarter as the mandatory liquidity ratios have continued to improve, while remaining well above the regulatory minimum. The average value of the ratio of liquid assets to short-term liabilities for the third quarter was 43% while the same ratio for the Lek and FC items stood at respectively 57% and 30%. from 57% and 29% in December 2024. The gap between assets and liabilities with a very short and short maturity date remains negative and

as high as 14% of the total assets (for instruments with a maturity date between 2 and 7 days) but the indicator has shown a small decrease during the third quarter.

The assessment of *market risks* (exchange rate and interest rate risk) which is based on the performance of the net open FC position as a percentage of the regulatory capital and the total net weighted position in the bank's book as a percentage of the regulatory capital has not changed over the third quarter and the two indicators remain significantly below the regulatory upper limits. The net open FC position relative to the regulatory capital is about 6% from 4.7% in September 2024 and 4.5% in December 2024, but it remains much lower compared to the total regulatory limit of 30% and the individual currency limit of 20%, for each of the currencies included in the calculation, indicating a very limited exposure of banks to the direct exchange rate risk. The indicator used to assess the direct risk in the banks' books from a 200 bp increase in the interest rate, stood at 4% at the end of September while the average value of this indicator has not surpassed 5% over the last couple of years. This indicator is subject to a 20% upper regulatory limit.

Table 3.1.1 Financial sector indicators

	<i>Financial sector indicators</i>								
	2017	2018	2019	2020	2021	2022	2023	2024	2025*
Total assets of the banking system (EUR million)	10,768	11,398	12,380	13,156	14,980	16,426	18,900	21,286	22,895
Foreign ownership of banking system (%)	81.4	80.8	78.4	69.4	68.8	66.2	64.4	62.9	62.4
Credit growth (%, aop)	-0.1	-1.7	3	6.1	6.9	11.2	2.2	9.9	13.0
Deposit growth (%, aop)	1	-1.2	2.5	5.8	8.5	9.6	4.4	6.0	7.6
Loan-to-deposit ratio (eop)	54.9	53.9	55.6	54.7	54.8	47.1	46.1	49.5	50.2
Interest rate spread (%, eop)	5.1	5.1	5	4.9	4.1	4.5	5.3	4.9	4.8
Variable interest loans to total loans	72.6	71.6	77.4	73.8	74.7	75.3	79.1	78.7	78.8
Financial soundness indicators (eop, %)									
- non-performing loans	13.2	11.1	8.4	8.1	5.7	5	4.7	4.2	4.4
- regulatory capital to risk-weighted assets	17	18.7	18.7	18.7	18.5	18.8	19.9	20.2	20.3
- liquid assets to total assets	30.2	34.2	35.7	34.8	33.3	29.6	30.8	28.6	30.4
-return on equity	15.7	13	13.5	10.7	12.9	12.3	17.3	18.2	15.8
- forex loans to total loans	56.4	56.1	51.2	50.3	51.1	51.4	46.3	45.3	44.0
- net open position in fx to regulatory capital	6.7	7.8	7.4	8.4	9.2	5	6.1	4.5	5.5
- net open position of interest rate in banking book to regulatory capital	-1.5	2.4	2.9	4.3	5.8	3	1.6	3.6	3.9

* September 2025- latest month reporting data

During the first half of 2025 the share of the financial system assets to GDP increased by 2.3 p.p. in semi-annual terms to 94.8%, since the expansion rate of the financial system assets was higher compared to the economic growth rate. Almost all segments of the financial system have reported growth of their balance sheets over the period. Within the financial system, the banking sector continues to dominate with almost 90% of the total assets. The exposure of banking sector to the non-banking sector remains low and in a

decreasing trend in annual terms. The sensitivity of the non-banking sector to the activity of the banking sector remains high and recorded an increase during the period. The Bank of Albania regularly monitors the correlation indicators within the periodic assessment of systemic risks.

Table 3.1.2 Assets of the financial system to GDP

Supervisory Authority	Bank of Albania			Financial Supervision Authority			Size of financial sector
	Financial system	Banking sector	NBFIs	SLAs and Union	Insurance companies	Pension funds	Investment funds
2011	86.1	2.6	0.8	1.5	0.0		91.0
2012	89.1	2.7	0.8	1.6	0.0	1.2	95.4
2013	91.4	2.6	0.7	1.6	0.0	3.7	100.2
2014	92.7	2.8	0.8	1.8	0.0	4.6	102.7
2015	91.9	2.7	0.7	2.0	0.1	4.7	102.0
2016	95.5	2.8	0.6	2.0	0.1	4.5	105.5
2017	93.2	2.9	0.5	2.0	0.1	4.7	103.4
2018	87.5	3.2	0.6	1.9	0.1	4.1	97.4
2019	86.2	3.8	0.6	2.0	0.2	3.9	96.7
2020	95.5	4.1	0.7	2.3	0.2	4.1	107.0
2021	95.0	4.1	0.7	2.2	0.2	4.2	106.4
2022	87.3	3.8	0.7	2.0	0.3	1.9	96.0
2023	83.1	3.7	0.7	2.1	0.3	2.1	92.0
2024	83.0	3.6	0.7	2.2	0.5	2.4	92.5
2025*	84.7	3.6	0.7	2.4	0.5	2.7	94.8

Source: Bank of Albania, INSTAT, Financial Supervisory Authority *June 2025

Macroprudential supervision

In accordance with the Regulation “On Macroprudential Capital Buffers,” banks are subject to the capital conservation buffer (Cons), the countercyclical capital buffer (CCyB), the buffer for systemically important banks (SIB), and the systemic risk buffer (Struk). The capital conservation buffer for 2025 was 2.5% for all banks in the sector, while the buffer for systemically important banks ranges between 0.5%, 1%, and 1.5%, depending on the systemic importance of the bank. At the end of June 2025, banks reported for the first time the fulfilment of the countercyclical capital buffer at the level of 0.25%². As of the preparation of this report, the Bank of Albania has not announced a systemic risk buffer (Struk).

² In the decision of the Governor of the Bank of Albania no. 2852, dated 28.6.2024, it is stated that the countercyclical capital buffer (CCyB) rate for Albania is increased to 0.25%, and banks must report the level of compliance with this buffer starting on June 30, 2025.

Table 3.1.3 Macroprudential capital buffers

Macroprudential capital buffers	2020	2021	2022	2023	2024 forward
Capital conservation buffer			1.5%	2%	2.5%
Bank specific CCyB rate {Countercyclical capital buffer (0-2.5%)}	0.5%	1%			3%
Capital buffer for systemically important banks (SIB)	0.625%	1.25%	1.875%	{0.5%;1%;1.5%;2%}	{0.5%;1%;1.5%;2%; 2.5%}
Bank specific SyRB {Systemic risk buffer (1-3%)}				{1%; 1.5%; 2%; 2.5%}	{1%; 1.5%; 2%; 2.5%; 3%}

Source: Bank of Albania

Starting from 2020 banks have started to meet capital requirements with respect to the CCoB and SIB. CCyB has been active and operational, but the CCyB rate for Albanian exposures has been set equal to zero until Q2-2024, when it increased for the first time from 0% to 0.25%. This level of the CCyB was to be met by banks in Q2-2025. In December 2025, the level of the CCyB to be met increases by 0.25%, reaching 0.5%. The CCoB rate is equal to 2.5% for 2024 and forward. Bank of Albania announces the list of systemically important banks and their specific SIB rate once a year at the end of the first quarter. There were four banks identified as systemically important till March 2025: National Commercial Bank (SIB rate- 1%), Credins Bank (SIB rate- 1%), Raiffeisen Bank (SIB rate- 1%) and OTP Albania Bank (SIB rate- 0.5%). Starting from June 2025, OTP Bank is no longer classified as a systemically important bank. Intesa Sanpaolo Bank is classified as a systemically important bank with a capital buffer of 0.5%, starting from January 2026.

The implementation of CCYB and SIB is supported by dedicated methodologies published on BoA's website. The compliance of banks with the capital buffer requirements stipulated in the Regulation are assessed quarterly by Bank of Albania through a special reporting package and a dedicated report. The systemic risk buffer (SRB) is not yet implemented, but in the future, it can be used as a macroprudential tool to address the structural systemic risks.

3.1. Medium-term macroeconomic scenario

Real sector

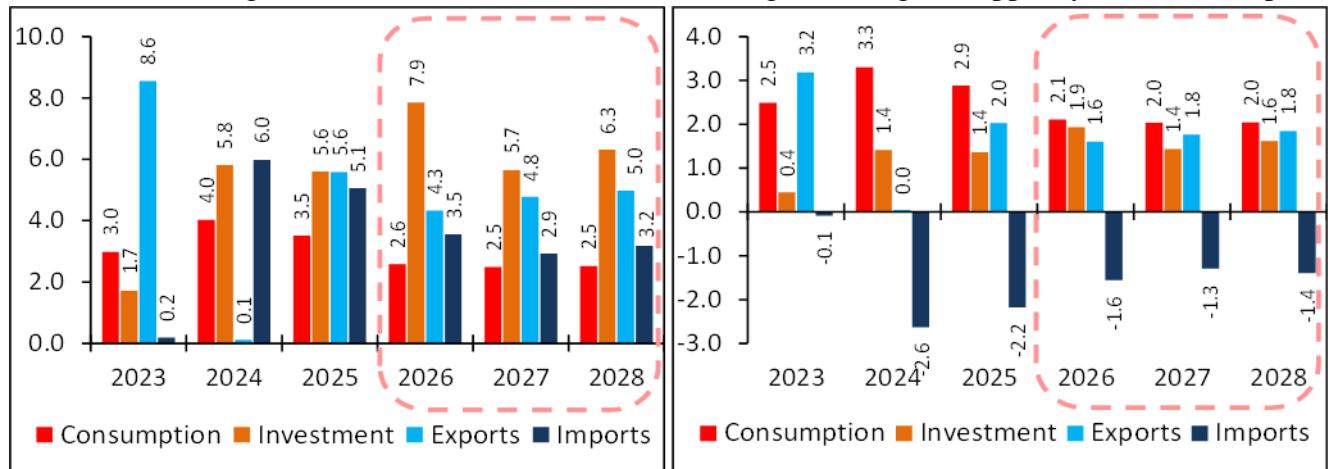
Over the past few years, the country's economy has demonstrated remarkable resilience in the face of multiple challenges that have affected our country. This resilience has been tested by three major shocks that occurred in quick succession, such as the earthquake, the global COVID-19 pandemic, and disruptions in the supply of key goods due to the war in Ukraine. Despite these adversities, prudent macroeconomic policies have supported a strong economic recovery, ensuring that key financial and economic fundamentals, as well as the overall macroeconomic stability, remain solid. Despite these challenges, economic activity averaged an increase of 4.3 percent for the period 2022-2024. Economic growth is projected to moderate to 3.9 percent in 2025, supported by favourable economic conditions, strong tourism performance and progress on the EU Growth Agenda.

The quarterly GDP statistics released by INSTAT strongly corroborate this forecast thus far as the real economic growth was 3.7 percent for the cumulative 9-months interval of 2025. For 2025, economic growth is forecasted to remain at the level of 3.9 percent. Over the medium-term period 2026-2028, GDP is forecast to also grow at an average annual rate of 4.0 percent, fuelled by the developments of the domestic economy and expectations for the global economy and especially that of the European Union. Economic activity will continue to be supported mainly by domestic demand, by the further growth of private consumption, as well as by investments in infrastructure as well as developments in strategic sectors such as tourism. Also, net foreign demand is expected to have a slight positive contribution in the medium term. Exports of goods, which have usually had a good performance historically except the last couple of years, are expected to return to a positive growth trend in the medium term ahead. Exports of services, particularly tourism, are also expected to have a positive performance in the medium term and will substantially offset the negative contribution from rising imports.

Specifically, for the medium term (2026-2028), final consumption is projected to grow in real terms by an average of around 2.5 percent per year, contributing an average of 2.1 percentage points per year to overall growth. Concurrently, investments are anticipated to experience real growth at an average rate of 6.6 percent per year, contributing an average of 1.7 percentage points per year to GDP growth.

Projections for the 2026-2028 period indicate an average annual real growth of 4.7 percent for exports of goods and services, contributing positively with an average of 1.7 percentage points per year to GDP growth. Meanwhile, imports of goods and services in this medium-term span are expected to expand by 3.2 percent, resulting in an average negative contribution of about -1.4 percentage points per year to the overall growth. As a result, net foreign demand is foreseen to have a slightly positive impact on overall growth, averaging 0.3 percentage points per year.

Chart 3.2.1: Real growth (left, in %) and contribution to growth (right, in pp.) by demand components



Source: INSTAT, Ministry of Finance (December 2025)

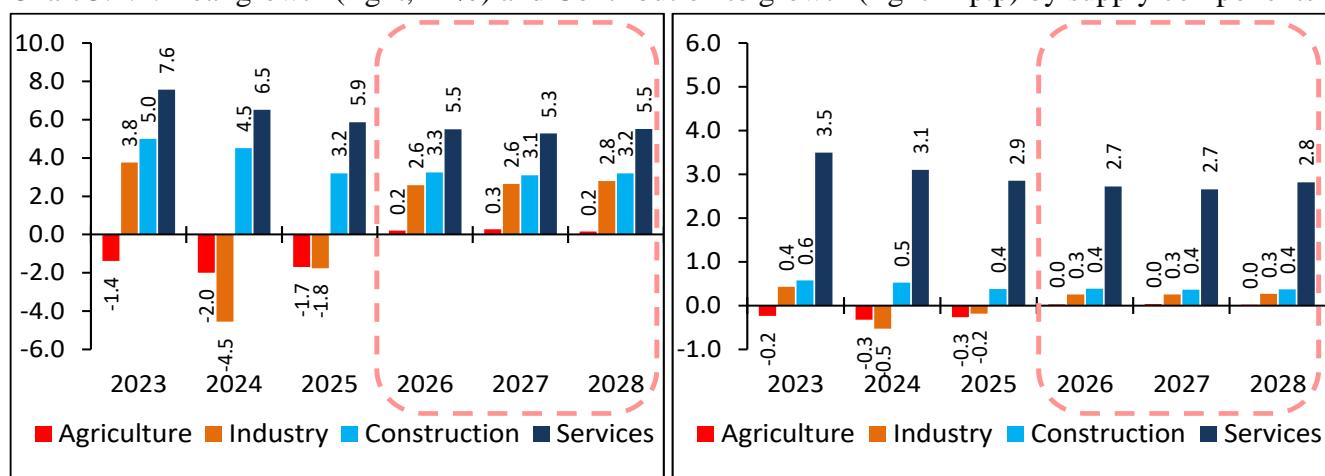
Table 3.2.1: Real growth (left, in %) and contribution to growth (right, in p.p.) by demand components:

	2022	2023	2024	2025	2026	2027	2028		2022	2023	2024	2025	2026	2027	2028
				Est.	Fore.	Fore.	Fore.					Est.	Fore.	Fore.	Fore.
1 Final Consumption (a+b+c)	5.4	3.0	4.0	3.5	2.6	2.5	2.5		4.6	2.5	3.3	2.9	2.1	2.0	2.0
a Final Consumption of the Households	6.1	3.1	3.7	2.0	3.0	3.6	2.7		4.3	2.2	2.6	1.4	2.0	2.4	1.8
b Final Consumption of General Government	2.2	4.4	6.0	12.2	0.6	-2.9	1.7		0.3	0.5	0.7	1.5	0.1	-0.4	0.2
i Individual consumption	1.7	2.4	7.2	14.0	1.5	-2.6	2.2		0.1	0.1	0.4	0.8	0.1	-0.2	0.1
ii Collective consumption	2.7	6.1	5.0	10.7	-0.3	-3.2	1.3		0.2	0.4	0.3	0.7	-0.0	-0.2	0.1
c Consumption of NPISHs	1.4	-23.6	0.9	1.5	1.6	1.5	1.3		0.0	-0.2	0.0	0.0	0.0	0.0	0.0
2 Gross Fixed Capital Formation	1.6	1.7	5.8	5.6	7.9	5.7	6.3		0.4	0.4	1.4	1.4	1.9	1.4	1.6
a Public	-15.5	5.5	-2.2	21.5	12.2	5.0	6.3		-1.2	0.3	-0.1	1.2	0.8	0.3	0.4
of which Central Government:	-12.4	6.2	-3.9	24.6	12.5	4.8	6.3		-0.9	0.3	-0.2	1.1	0.7	0.3	0.4
b Private	8.5	0.5	8.4	0.9	6.3	5.9	6.3		1.6	0.1	1.5	0.2	1.1	1.1	1.2
3 Domestic Absorption (1+2)	4.5	2.7	4.4	4.0	3.8	3.2	3.4		5.0	2.9	4.7	4.2	4.0	3.5	3.7
4 Net export^ (a-b)	-14	-30.0	46.9	2.2	-0.8	-6.5	-6.6		0.2	3.1	-2.6	-0.2	0.1	0.5	0.4
a Exports of goods and services (f.o.b.)	17.0	8.6	0.1	5.6	4.3	4.8	5.0		5.3	3.2	0.0	2.0	1.6	1.8	1.8
i Exports of goods	32.9	-15.6	-15.8	13.4	6.1	5.2	4.7		2.7	-1.7	-1.3	0.9	0.5	0.4	0.4
ii Exports of services	11.3	18.3	4.6	3.8	3.9	4.7	5.1		2.6	4.8	1.4	1.1	1.2	1.4	1.5
b Imports of goods and services (f.o.b.)	11.5	0.2	6.0	5.1	3.5	2.9	3.2		5.1	0.1	2.6	2.2	1.6	1.3	1.4
i Imports of goods	7.3	-5.9	7.2	4.7	4.4	2.9	3.1		2.4	-2.0	2.1	1.4	1.3	0.9	0.9
ii Imports of services	24.2	15.9	3.7	5.8	1.9	3.0	3.3		2.7	2.1	0.5	0.8	0.3	0.4	0.5
5 Change in inventories	-27.0	-181.8	-226.7	-	40.6	-40.6	-40.6	-40.6	-0.4	-2.0	1.9	-0.2	-0.1	-0.1	-0.0
6 Statistical discrepancy															
GROSS DOMESTIC PRODUCT (3+4+5)	4.8	4.0	4.0	3.9	4.0	3.9	4.1		4.8	4.0	4.0	3.9	4.0	3.9	4.1

Source: INSTAT, Ministry of Finance (December 2025)

From the supply side, all major sectors are expected to perform in line with their historical average growth rates over the medium term. Specifically, Industry will experience an average annual real growth of 2.7 percent over the period 2026-2028, with an average contribution of 0.3 percentage points per year. Construction is expected to grow at an annual average of 3.2 percent, making an average contribution of 0.4 percentage points per year. Services are projected to achieve a 5.4 percent average annual growth over the same period, with an average contribution of 2.7 percentage points per year, while Agriculture is estimated to grow by 0.2 percent annually, being neutral in terms of contribution to economic growth.

Chart 3.2.2: Real growth (right, in %) and Contribution to growth (right in p.p.) by supply components



Source: INSTAT, Ministry of Finance, (December 2025)

Table 3.2.2: Real growth (left, in %) and contribution to growth (right, in p.p.) by supply components

	2022	2023	2024	2025				2026				2027				2028			
				Est.	Fore.	Fore.	Fore.	Est.	Fore.	Fore.	Fore.	Est.	Fore.	Fore.	Fore.	Est.	Fore.	Fore.	
Agriculture, forestry and fishing	-	4.8	-	1.4	-	2.0	-	1.7	0.2	0.3	0.2	-0.9	-0.2	-0.3	-0.3	0.0	0.0	0.0	0.0
Mining and quarrying industry	-	5.8	-	20.7	-	31.0	-	0.9	3.1	3.0	2.9	-0.1	-0.3	-0.4	0.0	0.0	0.0	0.0	0.0
Manufacturing industry		6.2	-	0.7	-	3.7	-	2.5	2.1	2.2	2.7	0.4	-0.1	-0.3	-0.2	0.1	0.1	0.2	
Electricity, gas, steam and air conditioning supply	3.2	44.7		6.6	-	1.5		4.1	3.9	3.4		0.1	0.8	0.2	-0.0	0.1	0.1	0.1	
Water supply; sewerage, waste management and remediation	11.3	-	0.2	-	4.3	0.3		1.2	2.3	1.4		0.1	-0.0	-0.0	0.0	0.0	0.0	0.0	
Construction	13.2		5.0		4.5		3.2		3.3	3.1	3.2	1.5	0.6	0.5	0.4	0.4	0.4	0.4	
Wholesale and retail trade; repair of motor vehicles and motorc	5.9		2.7		4.0		2.4		5.2	4.9	5.7	0.7	0.3	0.5	0.3	0.6	0.6	0.7	
Transportation and storage	5.8		9.7		8.2		4.2		6.9	6.1	5.7	0.2	0.3	0.2	0.1	0.2	0.2	0.2	
Accommodation and food service activities	32.9		35.7		8.5		7.8		9.3	8.6	8.1	0.7	0.9	0.3	0.3	0.4	0.4	0.4	
Information and communication	14.4		8.2	-	2.8		1.6		3.9	4.3	4.6	0.3	0.2	-0.1	0.0	0.1	0.1	0.1	
Financial and insurance activities	7.5		9.5		4.0		2.9		4.7	5.2	4.9	0.1	0.2	0.1	0.0	0.1	0.1	0.1	
Real estate activities	6.7		2.8		4.0		8.1		6.9	7.1	7.4	0.4	0.1	0.2	0.4	0.4	0.4	0.4	
Professional, scientific and technical activities	20.2		3.4		1.2		2.2		4.7	4.3	4.8	0.6	0.1	0.0	0.1	0.1	0.1	0.1	
Administrative and support service activities	-	1.6		15.7		12.4		2.4	4.9	4.8	4.7	-0.1	0.5	0.5	0.1	0.2	0.2	0.2	
Public administration and defence; compulsory social security	-	1.5		8.9		15.7		13.8	3.9	3.6	3.7	-0.1	0.4	0.8	0.7	0.2	0.2	0.2	
Education	3.2		1.3		6.9		10.6		4.8	4.5	4.6	0.1	0.0	0.2	0.3	0.2	0.1	0.1	
Human health and social work activities	3.3		4.5		5.9		9.7		4.9	4.6	4.8	0.1	0.1	0.2	0.3	0.2	0.2	0.2	
Arts, entertainment and recreation	20.8		16.2		10.2		5.1		4.8	4.7	4.9	0.1	0.1	0.1	0.0	0.0	0.0	0.0	
Other service activities	22.0		8.4		8.8		5.2		5.3	5.2	5.7	0.2	0.1	0.1	0.1	0.1	0.1	0.1	
GVA at basic prices		5.2		5.0		3.2		3.2	3.9	3.9	4.1	4.5	4.3	2.8	2.8	3.4	3.3	3.5	
Net taxes on products		2.5	-	1.9		9.8		7.9	4.0	3.9	4.2	0.4	-0.3	1.3	1.1	0.6	0.5	0.6	
GDP at market prices		4.8		4.0		4.0		3.9	4.0	3.9	4.1	4.8	4.0	4.0	3.9	4.0	3.9	4.1	

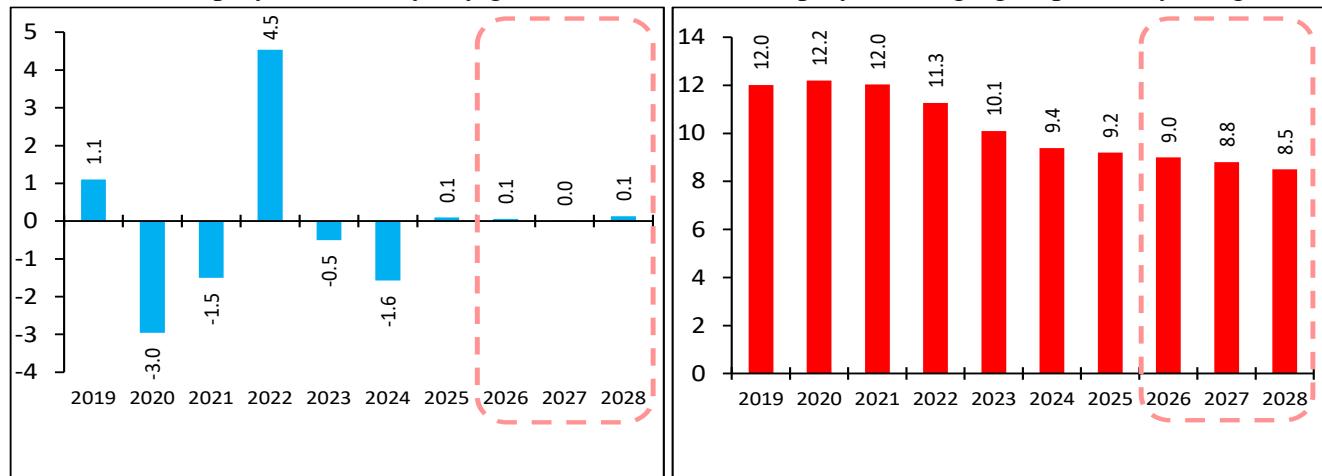
Source: INSTAT, Ministry of Finance (December 2025)

Economic growth has been accompanied by an increase in employment and a downward trend in the unemployment rate. Both the manufacturing and service sectors have benefited from these developments, ensuring recovery for business and employment, and creating good premises for the medium-term perspective.

The labour market further improved in 2025, reflecting the sustained growth in employment and wages, while the unemployment rate fell to historically low levels. Data from the Labour Force Survey for the third quarter show a 0.8 pp increase in employment, as well as a drop in the unemployment rate to 9.0%, down from 9.6% in the last quarter of the previous year for the age-group 15-64 year, and at 8.1% from 8.8% for the age-group +15 years. At the same time, private sector wages for the first nine months of 2025 rose by 9.6%, compared with an annual increase of 8.6% in 2024. In the presence of low and stable inflation, wage growth has translated into a real increase in households' income and improvement of their purchasing power.

In line with the medium-term growth projections, employment is expected to grow by an average of 0.1% per year over the period 2026-2028. Higher labour force participation rate is expected to be the main driver of labour supply growth. Whereas the growth of labour demand is expected to reflect more or less the same structure as the aggregate supply of economic activity. Therefore, services are expected to contribute more to the labour demand increase than the rest of economic supply sectors. At the same time the overall labour productivity is expected to continue improving over this period. Measures as "real GDP per person employed", labour productivity is foreseen to increase by an annual average of 3.9% over 2026-2028. Unemployment is expected to continue a gradual reduction reaching at 8.5% in 2028.

Chart 3.2.3: Employment (left, y-o-y growth in %) and Unemployment (age-group 15-64 y.) (right, %)



Source: INSTAT, Ministry of Finance (December 2025)

Monetary and exchange rate policy and inflation

The primary objective of monetary policy is to ensure price stability. The Bank of Albania operates under an inflation-targeting regime, with a medium-term target for consumer price inflation of 3.0% per year. Monetary policy is conducted using market instruments, with the key instrument being the interest rate applied to 7-day reverse repurchase agreements.

The Bank of Albania operated under a floating exchange rate regime. Nevertheless, the Bank retains the right to intervene in the foreign exchange market to maintain an adequate level of foreign reserves and to safeguard the country's monetary and financial stability.

Foreign reserve interventions for reserve accumulation are conducted through auctions, based on a pre-published calendar. By the first half of 2025, the Bank of Albania had purchased approximately EUR 122.1 million to increase foreign reserves. In addition to auctions, since May the Bank has intervened in the market to curb the rapid appreciation of the lek and to mitigate its potential implications for monetary and financial stability. In this respect, EUR 72.7 million were purchased during the first half of the year.

Monetary policy maintained an accommodative stance in 2025, reducing the key policy rate to 2.5%. This stance aimed to anchor inflation expectations amid inflation remaining below the 3% target, while also supporting favorable financing conditions for the economy in an environment of appreciating exchange rate. The transmission of the monetary policy has been effective: medium-term inflation expectations have stabilized around the 3% target, financing conditions have improved, and credit has expanded, supporting consumption and investment. Accordingly, subsequent to the July rate cut, the policy rate has remained unchanged.

The Bank of Albania expects inflation to rise gradually and return to the target by 2026. This path will be supported by: (i) imported inflation, reflecting the stabilization of international market prices and a moderation in the lek's appreciation; (ii) the fading impact of supply-side shocks on food prices; and (iii) the stability of domestic pressures, underpinned by healthy economic growth and well anchored inflation expectations. Current monetary conditions are considered appropriate to support this scenario, fostering economic growth near potential, a better balance of supply and demand in the labor market, and the anchoring of inflation expectations.

The balance of risks to the inflation forecast remains neutral over the medium term. In the external

environment, rising geopolitical tensions or further fragmentation of the global economy and trade could push inflation above our projections, while a stronger slowdown in partner economies would act in the opposite direction. Domestically, a more complete pass-through of wage growth to final prices could increase inflation relative to forecasts, whereas a faster appreciation of the lek would have a mitigating effect.

The Bank of Albania's monetary policy will remain firmly committed to achieving price stability. In a global environment marked by high uncertainty, policy decisions will continue to be data-driven and guided by comprehensive risk assessments. This approach ensures the flexibility needed to respond effectively to any deviation from the baseline scenario and to preserve monetary and financial stability. Going forward, the stance of monetary policy will continue to consider both the direction of fiscal policy and the developments in the exchange rate.

External sector and its medium-term sustainability

Balance of Payment and merchandise trade developments

The current account deficit improved in the first half of 2025, narrowing by 3.0% compared to the same period of the previous year. As a share of GDP, the deficit stood at 4.3%, about 0.5 percentage points lower than a year earlier. This improvement reflected better outcomes in the services and income accounts, as well as a slower expansion of the goods trade deficit. Cyclical factors, including lower commodity prices, contributed to the more moderate widening of the goods trade deficit, while the primary income account recorded notable improvements, declining to 0.6% of GDP – the lowest level in five years compared with an average of 1.4% for the same period.

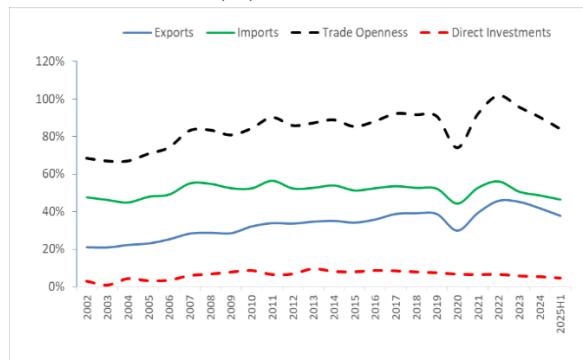
The goods trade deficit widened by 4.6% during the first half of this year, driven by a 3.2% rise in imports, while exports of goods declined slightly by 1.1%.

Trade in goods data through September 2025 shows a contraction in both exports and imports. Over this nine-month period, the goods trade deficit expanded by 3.6%, driven by 7.9% decline in exports and a 1.3% decline in imports. The decline in exports was concentrated in “Construction materials and metals,” reflecting unfavorable foreign market prices reduced production as a result. Imports, on the other hand, recorded a slight and broad-based decline, driven by lower prices in some categories and reduced quantities for others.

The real effective exchange ^[1] has followed an appreciation trajectory since the end of 2015, supported by ongoing structural improvements in the external sector, higher productivity and declining risk premia. Real appreciation peaked at 9.2% in 2023-2024 and 6.9%. In the first 10 months of 2025, the pace of real appreciation moderated to 3.0% reflecting a stabilization in the external sector after significant improvements in previous years.

^[1] REER is calculated as a trade-weighted index for 5 main trading partners: Italy, Greece, Germany, China, and Turkey. An increase in the index means depreciation of the domestic currency.

Chart 3.2.4: Trade openness, exports, imports and net FDIs to GDP (%)



Source: Bank of Albania, INSTAT.

According to the Constant Market Share (CMS)³ decomposition of Albanian goods exports in 2024, the main driver of the decline in exports to the EU-15 area was a loss of competitiveness. Smaller negative contributions arose from market distribution and commodity composition, while world export growth provided the only positive impact. Similarly, the drop in exports towards CEFTA member states was primarily driven by reduced competitiveness, with additional negative effects from commodity composition. Positive contributions in this case came from world export growth and market distribution.

Table 3.2.3: Decomposition of Albanian Exports using the CMS methodology (EUR million)

	2024	
	EU-15	CEFTA
World Export Growth	16.1	4.7
Commodity composition	-30.5	-19.6
Market Distribution	-41.4	39.8
Competitiveness	-210.3	-83.3
Total	-265.6	-58.5

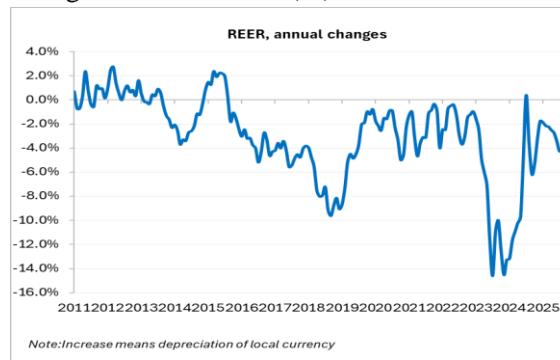
Source: Bank of Albania, INSTAT, UN Comtrade

The trade surplus in services expanded by 6.4% in the first half of 2025, compared to the same period last year. Exports of services increased by 8.1% reflecting a broad-based growth, with travel services remaining the main contributor, albeit growing more moderately at 7.7% due to the high base effect from strong growth in previous years. On the other hand, imports of services increased by 9.7%, also driven by higher travel services.

The reduction in the primary income deficit has significantly contributed to the narrowing of the current account deficit. The primary income deficit fell by 28.7%, driven by an 11.4% increase in income inflows. On the other hand, the investment income deficit widened slightly by 0.1%, mainly due to lower inflows from direct investment. As a share of GDP, the primary income account deficit stood at 0.6% in the first half of the year, one of the lowest levels in recent years. Meanwhile, the secondary income account surplus continued to grow, but at a slower pace, with remittances rising by 4.3% compared to 12.6% in 2024.

Projections indicate a widening of the current account deficit in 2025 and 2026, to around 3.1% and 3.0% of GDP respectively, compared with 2.4% of GDP in 2024. These projections mainly reflect expectations of a slowdown in the growth of service exports and secondary income.

Chart 3.2.5: Real effective exchange rate change in annual terms (%)

³ See <http://go.worldbank.org/KOCHUD4JN0> for a discussion on CMS.

Foreign direct investment (FDI) continued to increase albeit at a slower pace. In the first half of 2025, FDI inflows grew by 1.1%, down from 5.5% in 2024. The increase was driven almost entirely by the real estate sector, while other FDI sectors contributed negatively. Nevertheless, FDIs continue to fully finance the current account deficit, with the ratio standing at 106.9%.

Looking ahead, FDI is expected to continue growing in the medium term. The acceleration of the EU integration process is likely to serve as a catalyst for attracting additional FDI from EU member states. These inflows are expected to remain a key and stable financing source for the current account deficit.

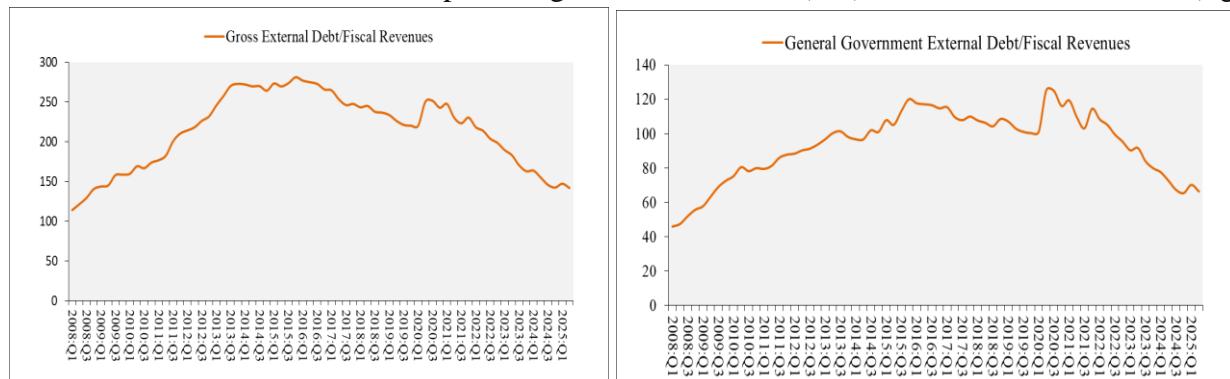
Portfolio investments showed a decline in assets alongside strong growth in liabilities, mainly in the form of debt securities. The increase in liabilities was driven by Eurobond issuance in the first quarter of 2025. On the other hand, other investments recorded net assets, largely in the form of loans.

External debt developments

The Albania's external debt-to-GDP ratio continued its downward trend, reaching 40.5% at the end of 2025Q2, slightly lower than 40.6% at the end of 2024. Gross external debt (GED) stood at EUR 10.6 billion, increasing annually by 4.3%, driven mainly by general government borrowing, notably Eurobond issuance in February 2025. On the other hand, strong nominal GDP growth and the ongoing appreciation of the lek against the euro have helped reduce the debt-to-GDP ratio despite the increase in debt stock. Long-term debt accounts for approximately 89.6% of total, largely consisting of long-term loans to the general government and other sectors. The remaining short-term debt is primarily composed of currency and deposits from deposit-taking corporations and trade credits.

Indicators of long-term repayment capacity remained broadly stable during the first half of 2025. The external debt-to-exports ratio increased slightly to 99.3%, up from 97.2% at the end of 2024 due to slower export growth. The ratio of gross external debt to fiscal revenues declined to 141.9%, down from 142.4% at the end of 2024. The ratio of general government debt to fiscal revenues increased to 66.4%, up from 65.5% at the end of 2024.

Chart 3.2.6: External debt over exports of goods and services (left) and over fiscal revenues (right)

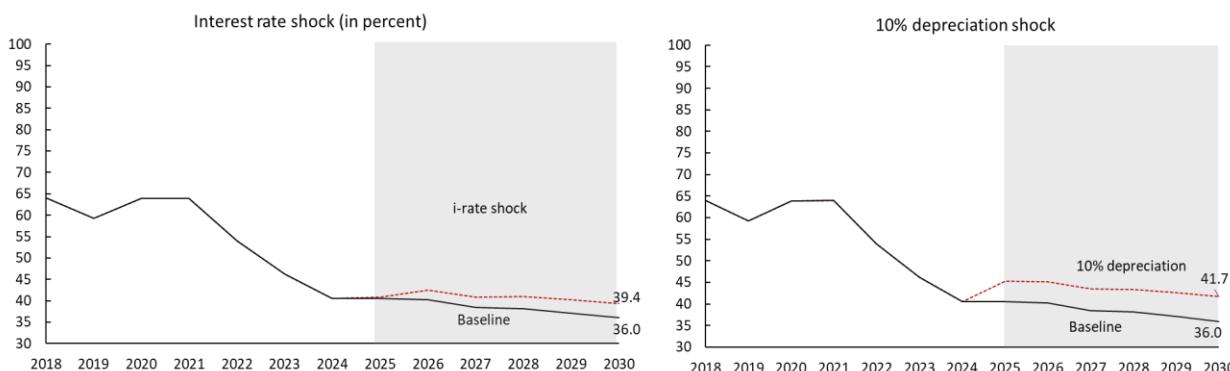


Source: Bank of Albania.

For the remainder of 2025, gross external debt is projected to decline to 40.5% of GDP, a reduction of approximately 0.1 percentage points compared to the end of 2024. The improvement is relatively slower than previously reflecting the moderation of the exchange rate appreciation as well as the more gradual expansion of GDP. Over the longer term, the downward trend is expected to continue, with the debt to GDP ratio projected to reach 36.0% by the end of 2030.

However, this outlook is subject to significant uncertainty, as illustrated by the external debt sensitivity analysis. Two alternative scenarios are assessed: (i) an interest rate shock, according to which the average interest rate on external debt increases permanently by two standard deviations above the baseline forecast; (ii) an exchange rate shock according to which the domestic currency experiences a one-off depreciation of 10% relative to the baseline exchange rate for 2025. Simulation results show that the external debt position deteriorates more sharply under the exchange rate shock scenario. At the end of the forecast horizon, the gross external debt to GDP ratio is projected to be about 5.7 percentage points higher in the exchange rate shock scenario and 3.4 percentage points higher under the interest rate shock scenario.

Chart 3.2.7: Gross External Debt to GDP at baseline and under risk scenarios: nominal interest rate shock (left) and real depreciation shock (right)



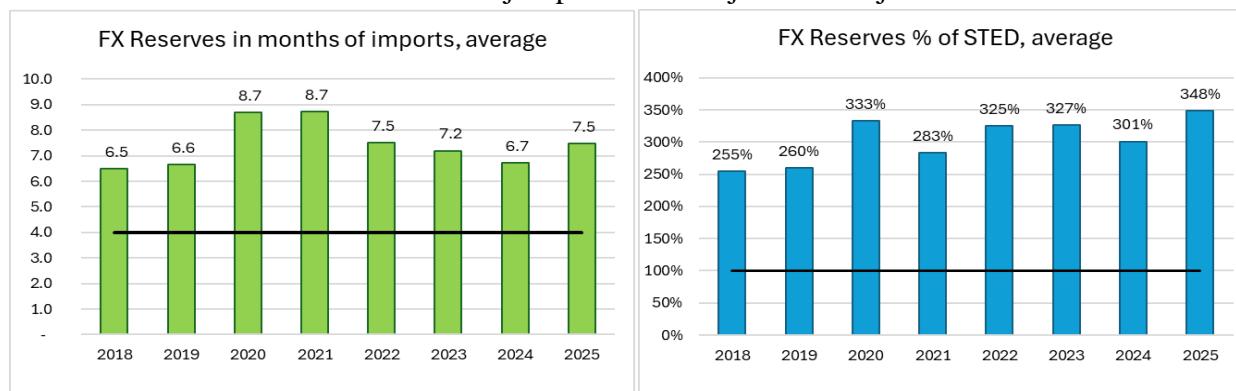
Source: Bank of Albania

Reserve stock developments

The Bank of Albania holds international reserves in accordance with two adequacy criteria: (1) coverage of at least 4 months of imports of goods and services and (2) coverage of at least 100% of the short-term external debt. These criteria represent minimum thresholds, while the Bank of Albania optimizes its reserves holdings to balance potential risks with the costs associated with holding reserves.

As of October 2025, gross international reserves amount to EUR 7.08 billion, reflecting an increase of EUR 816 million compared to the end of 2024. Estimates indicate that the reserve to GDP ratio fluctuated around 26.6% during the first three quarters of 2025, increasing by 1.6 p.p. from the previous year. Over the same period, reserve adequacy ratios have improved: gross reserves now cover 7.5 months of imports and exceed short-term external debt by 3.5 times. In the medium term, both indicators are expected to remain above their minimal thresholds.

Chart 3.2.8: Rezervat valutore në muaj importe dhe ndaj borxhit të jashtëm afatshkurtër.



Source: Bank of Albania.

3.2. Alternative scenarios and risks

The baseline scenario is assessed to have a higher probability of materialization. However, the forecasting of alternative scenarios—if a portion of the various risks surrounding the baseline scenario may materialize—is an important component of public finance planning.

The presentation of alternative scenarios increases the quality of planning, allowing for more efficient management of public funds in any situation that has a certain probability of occurring. Below, two alternative scenarios are briefly presented, specifically a “pessimistic” scenario and an “optimistic” scenario. Each of the alternative scenarios assumes that a bundle of negative risks (in the case of a “pessimistic” scenario) or positive risks (in the case of an “optimistic” scenario) will materialize. This set of implied risks assumes deviations from the forecasts in the baseline scenario for the main macroeconomic indicators, including credit to the economy, the performance of the Eurozone economy and the effects it has on exports of goods and services, on remittances, on foreign capital flows, as well as on the exchange rate, the interest rate, the pace and impact of planned structural policy reforms for the medium-term period, etc. For the sake of analytical (modelling) simplicity, the overall effect of all assumed risks, negative or positive, is given as a shock in terms of a single variable, namely “real economic growth.” Therefore, the alternative scenarios are based on different assumptions of economic growth from the baseline scenario.

The table below presents the assumptions of “real growth” in the alternative scenarios, the derived nominal growth, and the nominal level of GDP. Moreover, the table includes the assumed implications for several key fiscal variables that are explained in the relevant section 5.7 (Sensitivity Analysis) to better facilitate understanding.

Greater importance is given to the “pessimistic” scenario and the possible handling of its implications, and we also present in an asymmetric manner a larger negative shock in this scenario compared with the opposite magnitude of the smaller positive shock that we introduce in the “optimistic” one. We assume that in the “pessimistic” scenario real GDP growth will be 2.5 percentage points lower for the first year of the program (2026) and then 1.5 percentage points lower for each consecutive year (2027 and 2028) than the respective growth forecasts in the “baseline” scenario. Whereas in the “optimistic” scenario we assume that real growth will be 0.5 percentage points higher for each year than that which we respectively forecast in the “baseline” scenario.

Table 3.3.1: Alternative assumptions in each scenario

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
	Real GDP growth (%)							Est.	Proj.	Proj.	Proj.
Baseline	3.7	2.1	-3.3	9.0	4.8	4.0	4.0	3.9	4.0	3.9	4.1
Pessimistic									1.5	2.4	2.6
Optimistic									4.5	4.4	4.6
	Nominal GDP growth (%)										
Baseline	5.2	3.1	-3.3	12.7	15.2	10.0	6.5	5.0	5.3	5.2	5.4
Pessimistic									2.2	3.3	3.5
Optimistic									5.8	5.7	5.9
	Nominal GDP (billion Lek)										
Baseline	1,660.8	1,712.0	1,656.0	1,866.7	2,149.7	2,364.3	2,517.8	2,642.5	2,781.4	2,925.0	3,081.9
Pessimistic									2,701.1	2,791.2	2,890.0
Optimistic									2,794.8	2,953.2	3,126.6
	Total revenue (% of GDP)										
Baseline	27.1	26.9	25.7	27.4	26.6	27.2	28.2	29.1	29.6	29.8	29.9
Pessimistic									28.8	29.3	29.4
Optimistic									29.6	29.8	29.9
	Total revenue y-o-y growth (%)										
Baseline	4.5	2.3	-7.5	20.0	12.1	12.4	10.4	8.3	7.0	5.8	5.8
Pessimistic									1.0	5.2	3.9
Optimistic									7.7	6.3	6.3
	Total revenue (billion Lek)										
Baseline	449.9	460.3	425.9	511.0	572.8	643.7	710.3	769.0	823.1	870.6	920.6
Pessimistic									776.8	816.8	848.9
Optimistic									828.4	880.4	935.5
	Effective interest rate of public debt (%)										
Baseline	3.5	3.3	3.2	3.0	3.0	3.6	4.1	4.2	4.2	4.3	4.4
Pessimistic									4.2	3.9	3.9
Optimistic									4.2	4.4	4.5
	Nominal exchange rate, end-year (Lek/Euro)										
Baseline	123.5	122.2	123.5	120.8	114.9	102.8	98.3	98.0	98.0	98.0	98.0
Pessimistic									98.0	98.0	98.0
Optimistic									98.0	98.0	98.0

Source: Ministry of Finance (December 2025)

4. FISCAL FRAMEWORK

4.1. Policy strategy and medium-term objectives

The Albanian economy has shown high resilience in the face of challenges such as the pandemic, the energy crisis and inflationary pressures that have tested the country's fiscal framework. Prudent macroeconomic and fiscal policies have supported the gradual recovery of economic activity, ensuring that key economic and financial fundamentals remain solid.

Fiscal consolidation will continue to be the fundamental objective of fiscal policy for the medium-term period of 2026-2028, directly contributing to ensuring the macroeconomic stability of the country as an essential premise for a relatively high, sustainable and inclusive economic growth. With the aim of guaranteeing fiscal discipline and the credibility of public finance policies in the assessment of financial markets, fiscal policy will target an annual downward trajectory of public debt. While the primary balance will be at least neutral or at a positive, constituting the main operational objective that will anchor fiscal policy in the medium and long term, aligning with the stipulations of the Organic Budget Law and emphasizing a commitment to sound fiscal rules. The primary balance is projected at an average of around 0.6 percent per year over the upcoming medium-term period (2026-2028). We are projecting a neutral primary balance for 2026 and targeting a surplus of 0.8 percent in 2027 and reaching to 1.0 percent in 2028.

Explanatory Box: Primary balance, the main anchor of fiscal policy

The primary balance stands as an essential parameter for the long-term sustainability of public finances. In July 2020, a crucial legal initiative was undertaken, introducing a new fiscal rule within the Organic Budget Law (OBL) in adherence to the recommendations of the European Commission and the fundamental principles of the EU acquis. This rule establishes a legal obligation that, starting from the budget year 2024 onward, the actual primary balance cannot be negative; it must be, at a minimum balanced or positive (primary surplus). This specified target for the budgetary primary balance parameter will constitute the main operational objective of fiscal policy, both in the present and the future, embodying the pursuit of a consistently declining trajectory of public debt. The overarching goal is to facilitate continuous fiscal consolidation, ensuring the long-term sustainability of public finances as a cornerstone for macroeconomic stability and the overall well-functioning of the country's economy.

Consequently, this commitment to fiscal prudence is expected to steer the gross public debt on a downward trajectory, aligning with the respective "debt-brake" fiscal rule. Anticipated figures for 2025 indicate a decline in public debt to around 54.1 percent of GDP from approximately 54.2 percent in 2024. The trend is set to persist, with an expected further reduction to approximately 53.6 percent in 2026 and 53.2 percent in 2027. According to the actual baseline scenario, public debt is expected to decrease to around 51.0 percent by 2028, with a subsequent decline to approximately 46.4 percent by 2031 and (in absence of any substantial negative macroeconomic shock) residing around 40% of GDP by 2035.

At the same time, alongside the commitment to fiscal consolidation, we will strive to maintain a prudent balance between current and capital budget expenditures. Specifically, the central government's capital expenditures, encompassing the bulk of public investments, will be targeted at an annual average of 6.4 percent of GDP throughout the period 2026-2028 including here the new public investments that will potentially be enabled within the New Growth Plan implemented by the European Union with the final goal of a substantial upward shift of potential growth in the countries of the Western Balkans. This allocation is deemed essential to underpin economic growth in both the medium and long term. In tandem, the overall budget deficit is targeted to average 1.7 percent per year during this timeframe. Therefore, underpinning our fiscal strategy is the dedication to maintaining a positive current fiscal balance, aligning with the stipulations of the "golden rule" of the budget. The current fiscal balance, calculated as the difference between public investment and the fiscal deficit, is expected to be positive in each year and averaging at +4.6 percent of GDP per year over the medium-term span from 2026 to 2028. More precisely, the overall fiscal balance is targeted at -2.3 percent for the year 2026, followed by targets of -1.6 percent for 2027 and -1.3 percent for 2028. Concurrently, the capital expenditures are budgeted at 6.5 percent, 6.3 percent, and 6.3 percent respectively for the years 2026, 2027, and 2028. Consequently, the targeted current fiscal surplus stands at 4.2 percent for 2026, with projections of 4.8 percent and 5.0 percent for 2027 and 2028, respectively.

Explanatory Box: Compliance with Fiscal Rules

In full compliance with the obligations arising from the Organic Budget Law (OBL) No. 9936/2008, as amended, the fiscal framework for the period 2026 (-2028) materializes the following fiscal principles and rules:

1. *“Debt-brake” rule: In each annual budget law, whether initial or revised, as well as in the medium-term budget planning, the ratio of public debt to GDP shall be planned lower than the estimated level of the preceding year, until the debt level reaches and remains below 45 percent of GDP.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2026 (-2028) *targets a total public debt level as a percentage of GDP lower than the preceding year's level each year.*

2. *“Primary balance” rule: In each budgetary year starting from 2024 and onwards, the actual primary balance cannot be negative; it must be at least neutral or positive (primary surplus).*

In accordance with this provision of the OBL, the fiscal framework for the period 2026 (-2028) targets a neutral primary balance of 0.0 percent in 2026, 0.8 percent in 2027 and 1.0 percent in 2028.

3. *“Golden” rule: The annual amount of the budget deficit cannot exceed the annual amount of capital expenditure, approved each year in the budget law.*

In accordance with this provision - "golden rule" – of the OBL, the annual deficit targets in the fiscal framework for the period 2025-2027, *are lower than the planned capital expenditure.* Consequently, the targeted current fiscal balance is positive for each programmed year, averaging +4.6 percent of GDP.

4. *Prudent macroeconomic projections: The nominal GDP value in Albanian Lek, which will be used for calculating the public debt-to-GDP ratio for the budgetary years being planned and for the preceding year, cannot be higher than the respective value forecasted or evaluated in the "World Economic Outlook" report of the IMF, the latest published at the time the annual budget law is submitted for approval in the Parliament. This is clearly documented in the accompanying report of the annual budget law.*

In accordance with the fiscal rule defined in the Organic Budget Law (OBL), the Macroeconomic and Fiscal Framework 2026 (-2028) is based on nominal Gross Domestic Product (GDP) projections *that are not higher* compared to the respective latest projections of the International Monetary Fund (IMF) presented in World Economic Outlook report of October 2025.

The table below presents the comparability of the Ministry of Finance projections with the corresponding IMF projections, demonstrating compliance with this fiscal rule of the OBL.

	(in billion ALL)					
	2023	2024	2025 Fore.	2026 Fore.	2027 Fore.	2028 Fore.
MF	2,364.3	2,517.8	2,642.5	2,781.4	2,925.0	3,081.9
IMF - World Economic Outlook	2,364.3	2,517.8	2,662.0	2,828.7	3,016.5	3,214.7
Difference MF - IMF	0.0	0.0	-19.5	-47.2	-91.5	-132.8
(The difference of the forecasted values should not be higher than zero)						

5. *Contingency Planning: In each planned budgetary year, a special contingency of no less than 0.7 percent of total budget expenditures must be included to compensate potential risks from fluctuations in exchange rates or interest rates affecting the debt level.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2026 (-2028) includes for each year, in a separate item, named "Contingency on interest rate fluctuations, etc.", *a contingency of no less than 0.7 percent of total expenditures.*

6. *Privatisation revenues: Revenues from privatization are not part of the budget planning. In case of their collection, they are used not less than 50% for reducing the public debt, and the remaining part for investments.*

In accordance with this provision (fiscal rule) of the OBL, the fiscal framework for the period 2026 (-2028) *does not include revenues from potential privatizations.*

1. Link to access the WEO report - <https://www.imf.org/en/publications/weo/issues/2025/10/14/world-economic-outlook-october-2025>

4.2. Budget implementation in 2025

Revenue performance by fiscal administrations

Revenue performance has been positive during 2025. Revenues from taxes, customs and social and health insurance contributions (GPT+ISSH+FSDKSH) for the period January-September 2025 are 505.2 billion lek, 0.9% or 4.7 billion lek more than the initial plan for the period January-September 2025.

- Revenues from taxes and customs without contributions for the period January-September 2025 are 372.3 billion lek, -0.6% or -2.4 billion lek less than the initial plan for the 9 months of 2025.
- Revenues collected from contributions (GPT, ISSH and FSDKSH) for the period January-September 2025 were realized in the amount of 132.9 billion lek, 7.1 billion lek or 5.6% more than the initial plan for the period.

Table 4.2.1: Total revenue from taxes, customs and contributions (in million AL)

Tax Type	Fact 9M 2025	Initial Plan 9M 2025	The difference	
			Fact/Initial Plan 9M 2025 in Value	in %
Total Net VAT	168,237	176,039	-7,802	-4.4%
Profit tax	45,279	48,274	-2,995	-6.2%
Excise tax	52,313	49,989	2,324	4.6%
Personal income Tax	63,147	54,188	8,959	16.5%
Total National Taxes	36,323	38,046	-1,723	-4.5%
Customs duties	7,032	8,155	-1,123	-13.8%
TOTAL Taxes + Customs without Contributions	372,331	374,691	-2,360	-0.6%
Collected contributions GPT, ISSH, FSDKSH	132,882	125,790	7,092	5.6%
TOTAL GPT + GPT (Contributions)	505,213	500,481	4,732	0.9%

Source: Ministry of Finance (2025)

The main factors that have influenced the performance of 9-month revenues against the initial plan are:

- For the period January-September 2025, VAT revenues are higher compared to the first 9 months of last year, at 10.1 billion lek and compared to the initial plan at -7.8 billion lek less or -4.4% less.
- For the period January-September 2025, it is found that revenues from net domestic VAT are higher compared to the 9-month period of last year, in the amount of 7.4 billion lek and compared to the initial plan in the amount of 83 million lek more or +0.2% more.
- Revenues from VAT on imports have a shortfall of -7.9 billion lek or -6.3% in the first 9 months, while compared to the same period in 2024, revenues from this item have increased by about +2.7 billion lek or +2.3%. It should be noted that about -7 billion lek of VAT have been lost due to the exchange rate (fall of the US Dollar by 5% and the fall of the Euro by 3%). According to data reported by the Customs Administration, the items with the weakest performance in revenues from this tax during this period compared to January-September 2024 are:
 - Used vehicles, which have had a decrease in VAT revenues of about -10% or -798 million lek, because of the halving of the imported quantity by almost -42% compared to the first 9 months of 2024.
 - New vehicles, which have also suffered a decrease in revenue of around -190 million lek (-11%), because of the decrease in the quantity imported by around -10%.

Meanwhile, the products with the best performance in VAT revenues during this period are:

- Electricity with +1.7 billion lek additional revenue from VAT on imports.
 - Cigarettes with +723 million lek additional revenue.
- Personal income tax revenues continue to grow and are the best performing item as a result of:
 - The positive performance of the increase in income tax from the public sector (+22.9%) and private sector (+27.5%) compared to the 9-month period of 2024, as a result of the anti-informality campaign for the real declaration of salary in the private sector and the elimination of undeclared work, as well as the measures taken in implementation of the Medium-Term Revenue Strategy and Action Plan for 2025;
 - Increase in tax revenues on the Annual Individual Income Tax Declaration by about 483 million lek or +30% for the 9-month period of 2025 compared to the same period of 2024. We emphasize that from January 2025, the declaration of people with annual income of 12 million lek for the year 2024 begins.
 - Tax on income from the sale of real estate with an increase of 43.3% compared to the 9-month period of 2024.
 - Increase in interest income by 13.7% and increase in income from rental income tax by 8.8%.
- Income tax revenues are underperforming compared to the plan and this has been a negative performance throughout the first nine months of this year. According to GPT data, a significant part of the entire manufacturing industry in the country pays less income tax compared to last year.
- The good performance of the collection of income from contributions continues as a result not only of the effects of the increase in the wage fund in the state sector compared to the same period last year, from which 27.9% is taken, but also the increase in the wage fund in the private sector.
- National tax results with an increase from the previous period mainly for the main items such as turnover tax with an increase of 8.4%, tax on used transport vehicles with an increase of 9.8% and tax on plastic packaging with an increase of 10.3%. It should be noted that the by-laws on gambling have not yet been approved and as a result the planned amount of +2 billion lek in the initial planning in revenues from the fiscal policy of 2025 has not yet been implemented.
- For the first 9 months of 2025, taxed imports increased by 11% in weight, while in value they increased by only 1%. Definitive exports decreased by -11%.
- Excise revenue has increased by about +5.1 billion lek or about +11% more than in the first 9 months of 2024 and by about +2.3 billion lek compared to the initial plan. The increase in revenue has come mainly because of the increase in the amount of fuel disposed of for consumption by about +59 thousand tons, cigarettes by +209 tons, beer by about +1.6 thousand tons, and coffee by +230 tons.
- Customs duty has underperformed by -1.1 billion lek less compared to the initial plan, affected by the phenomenon of changing the origin of tobacco and cigarette imports with an effect of -92 million lek, the decline in meat imports with an effect on customs duty by -36 million lek and sugar by -31 million lek.
- Mining royalties have a declining performance compared to the plan and the 9 months of 2024. Crude oil royalties have suffered a decrease of -403 million lek while other mining royalties have a decrease of -291 million lek, compared to the same period a year ago, affected by both the decline in international prices and the quantity exported abroad.

Revenues from the General Directorate of Customs (revenues from VAT on imports, excise duties, customs duties and mineral royalties) were realized at the value of 178.7 billion lek, +7.5 billion lek or +4.4% more

than the same period in 2024, and -7.3 billion lek or 3.9% less than the initial customs revenue plan for the 9-month period of 2025.

Table 4.2.2 Nine-month revenue from customs administration (*in millions of lek*)

Tax type	Fact 9M 2025	Initial plan 9M 2025	Difference Fact / Initial Plan 9 M 2025	
			value	%
VAT net import	117,832	125,717	-7,885	-6.3%
Excise	52,313	49,989	2,324	4.6%
Mining rent	1,492	2,081	-589	-28.3%
Customs tax	7,032	8,155	-1,123	-13.8%
Total Customs	178,669	185,942	-7,273	-3.9%

Source: Ministry of Finance (2025)

The main positive factors that have influenced during the period January-September 2025:

- Imported fuel - Revenues from imported fuel have increased by around +2.9 billion lek, compared to the first 9 months of 2024. This increase has come mainly because of the increase in the imported quantity of around +12%, with an effect on revenues of +4.6 billion lek, but the decline in international prices has on the other hand brought a negative effect of around -1.7 billion lek.
- Cigarette revenues have increased by around +2.4 billion lek, also influenced by the increase in the quantity imported by around 255 tons or +11% and the quantity discarded for consumption by around 209 tons or +9% more than in the same period in 2024.
- Electricity has had a rapid increase in revenues compared to the January-September period of the previous year. Around +863 million lek are additional revenues from the increase in prices and around +886 million lek from the increase in the quantity of electricity. In total, around +1.75 billion lek is additional revenue from electricity.

The main negative factors that have influenced during the period January-September 2025:

- The decline in the exchange rate of the Albanian currency against the dollar and the European currency, which according to reports from the Customs Administration have resulted in a loss of -7 billion lek.
- Used vehicles were among the worst performing products during the 9-month period, resulting in a decrease in revenue of around -798 million lek. Imported quantities have suffered a significant decrease of approximately -42%, which translates into halving compared to the same period in 2024, creating a negative impact of -3.2 billion lek. However, the increase in international prices has partially mitigated this effect, offsetting around +2.4 billion lek. As a result, the combined net effect of the decrease in quantity and the increase in prices is around -798 million lek.
- New vehicles have also seen a decline in imported quantities, albeit at a more moderate level of around -10%, marking a decline in revenues of -167 million lek. International prices of new vehicles have also seen a decline with an effect of -23 million lek. Their total effect on customs revenues has been -190 million lek.
- Revenues from crude oil royalties have decreased by -403 million lek. The largest impact was the drop in prices from 4.1 lek/unit to 3.5 lek/unit with an effect of -208 million lek. An additional negative effect of -196 million lek was caused by the decrease in exported quantities by -47,239 tons in 9 months or -13% compared to 9 months 2024.

- Imported tobacco had a decrease in revenue of -222 million lek in the first 9 months, because of the decline in prices on the international market.

VAT on imports revenues on imports for the 9-month period of 2025 result in 117.8 billion lek, about +2.7 billion lek or +2.3% more than the same period a year ago, while compared to the initial plan for the period, revenues from this item result in about -7.9 billion lek or -6.3% lower. Out of 60 groups of customs products with a positive effect on VAT revenues compared to the same period of 2024 are:

- Electricity, with an effect on revenue of +1.75 billion lek, or +112%. This extremely high percentage is since the end of 2024, VAT revenues on electricity imports were in the red, due to the decline in international prices. Meanwhile, for the period January-September 2025, not only prices increased but also the quantity of electricity increased by about +57%.
- Cigarettes, with an effect on revenue of +723 million lek, or +15%.

Construction materials, with an effect on VAT revenues of +392 million lek or +12%. They had a negative effect:

- Used vehicles with an effect of -798 million lek, or -10%.
- New vehicles with a negative effect of -190 million lek, or -11% less than the same period in 2024.

Excise revenue for the 9-month period was realized at 52.3 billion lek, +5.1 billion lek or +10.8% more than the same period in 2024, and about +2.3 billion lek or +4.6% more than the initial excise plan for the 9-month period in 2025.

The following products had a significant positive impact on excise revenue:

- Imported fuel, with an increase in the quantity released for consumption by about +59 thousand tons (+12%) more than the January-September period of last year, with an effect on revenues of about +2.7 billion lek more or +12%.
- Cigarettes discarded for consumption have also increased by +9% or +209 tons. Excise revenue for this category has increased by around +1.8 billion lek or +10% because of the implementation of the excise duty increase calendar.

Among the excisable products that had a negative impact during the first 9 months of 2025 are:

- Imported Tobacco, with a negative effect on excise duty of -252 million lek (-39%).
- Imported Beer, with a negative effect on excise duty of -62 million lek (-4%).

Table 4.2.3 The quantities released for consumption by month for two of the main excise items

MONTHS	Fuel in tons		Difference 2025/2024		Cigarettes in ton		Difference 2025/2024	
	2024	2025	In value	In %	2024	2025	In value	In %
January	47,317	55,387	8,070	17%	225	233	8	4%
February	46,830	55,001	8,171	17%	205	217	12	6%
March	48,702	54,883	6,181	13%	240	258	18	7.5%
April	55,271	63,782	8,511	15 %	201	238	37	18%
May	58,645	61,085	2,440	4%	260	140	120	46%
June	56,975	67,276	10,301	18%	309	304	-5	-2%
July	67,361	73,555	6,194	9%	280	337	57	20%
August	76,155	76,424	269	0.35	344	367	23	6.7

September	56,035	65,033	8,998	16	278	311	33	12
Progressive	513,291	572,426	59,135	11.5%	2,342	2,551	209	8%

Referring to the table above, an increase in the amount of fuel and cigarettes discarded for consumption is noted, which are also the main contributors to exercising revenue.

Mining rent revenues from mineral royalties in exports were realized at a value of about 1.5 billion lek, - 653 million lek, or about -30% less compared to the same period last year and a realization of 71.7% against the initial plan for the 9 months of 2025.

- Revenues from crude oil royalties are around 1.1 billion lek. Compared to last year, revenues from crude oil royalties have decreased by around -403 million lek as a result of the price drop from 4.1 lek/unit to 3.5 lek per unit with an effect of -208 million lek and the decrease in the quantity exported (by -13%, or -47,239 tons), with an effect of -196 million lek.
- Meanwhile, revenues from other minerals were realized in the amount of 363 million lek, with a decrease of about -291 million lek from the 9 months of 2024. This downward effect was influenced by the decrease in the unit price from 0.45 lek/unit to 0.27 lek/unit, with an effect of -238 million lek, as well as by the decrease in the quantity exported by -118 thousand tons or -8%, with an effect on revenues of -54 million lek.

Customs duty revenues were collected in the amount of 7 billion lek, +381 million lek or +5.7% more than in the first 9 months of 2024, and an achievement of about 86.2% compared to the initial plan. According to the DPD, the underperformance is influenced by the change in the origin of the import of the cigarette item with an effect of -92 million lek, as well as the decrease in the quantity of items: meat reduced by 36 million lek, sugar reduced by 31 million lek, etc..

Revenues from the Tax Administration (revenues from domestic net VAT, profit tax, personal income tax, national taxes and contributions collected by the DPT) for the period January - September 2025 were realized at the rate of 322.1 billion lek, +37 billion lek or 13% more than the period last year, as well as 11.4 billion lek, or 3.7% more than the initial plan for the period for 2025.

Table 4.2.4 Revenues collected by the GDT (in millions of lek)

Tax type	Fact 9M 2025	Initial Plan 9M 2025	Difference Fact / Initial Plan 9 M 2025	
			value	%
Total VAT net	50,405	50,322	83	0.2%
VAT refund	19,143	20,411	-1,268	-6.2%
Profit tax	45,279	48,274	-2,995	-6.2%
Personal Income tax	63,147	54,188	8,959	16.5%
National taxes	34,831	35,965	-1,134	-3.2%
Total taxes without contributions	193,662	188,749	4,913	2.6%
Collected contributions GPT	128,407	121,914	6,493	5.3%
Total taxes with GPT contributions	322,068	310,663	11,406	3.7%

Source: Ministry of Finance (2025)

Domestic VAT revenue collected (net) was realized at the rate of 50.4 billion lek, 7.4 billion lek or 17.2% more than the 9-month period of 2024, and with a realization of 100.2% of the initial plan for the period.

The main factors that have influenced the increase in domestic VAT revenue compared to the same period a year ago are:

- Increased VAT because of good tax administration.
- Increased revenue in it in all sectors of the economy.
- Increased consumption from increased salaries in public administration accompanied by increased salaries in the private sector.

Referring to the Tax Administration's data from fiscalization, the turnover without VAT (without autoload and without bad debt) for the period January - September 2024 was 2,778 billion lek and January - September 2025 is 2,905 billion lek, i.e. 127.5 billion lek more. All basic sectors of the economy have increased turnover compared to the 9-month period of the previous year, evidenced by the increase in gross declared VAT.

Gross VAT by sectors compared to the same period a year ago:

- In the construction sector, gross VAT for the 9-month period of 2025 is 11.6 billion lek, with an increase of 21% or 2 billion lek more.
- In the manufacturing sector, gross VAT for the 9-month period of 2025 is 12.5 billion lek, with an increase of 5% or 556 million lek more.
- In the services sector, gross VAT for the 9-month period of 2025 is 21.4 billion lek, with an increase of 11% or 2.1 billion lek more.
- In the transport sector, gross VAT for the 9-month period of 2025 is 1.9 billion lek, with an increase of 24% or 374 million lek more.
- In the trade sector, gross VAT for the 9-month period of 2025 is 22.3 billion lek, an increase of 12% or 2.5 billion lek more than the same period a year ago.

Refunds for the 9-month period of 2025 are 19.1 billion lek, 49 million lek or 0.3% more than the period of 2024, and -1.3 billion lek or -6.2% less than the initial VAT refund plan for the period of 2025. From the data of the tax administration, it results that at the end of September 2025 the stock of approved but unreimbursed refund requests is 2.5 billion lek.

Profit tax revenues collected from profit tax for the 9-month period of 2025 were realized at the rate of 45.3 billion lek, 1.9 billion lek, or 4.4% more than the 9-month period of 2024, and -3 billion lek or -6.2% less than the initial plan for the 9-month period of 2025 for profit tax. The analysis of profit tax by sectors compared to the previous year's results in:

- Construction Sector with growth of 14% more than in the 9-month period of 2024.
- Service Sector with growth of 11% more than in the 9-month period of 2024.
- Transport Sector with growth of 16% more than in the 9-month period of 2024.
- Trade Sector with growth of 18% more than in the 9-month period of 2024.
- Manufacturing Sector with a decrease of -19% less than the 9-month period of 2024. According to DPT data and the list of taxpayers, a significant part of the entire manufacturing industry in the country pays less taxes than last year.

Table 4.2.5 DPT data and the list of taxpayers (*in millions of lek*)

Paid income tax installments by economic sectors:	9-month 2024	9-month 2025	Diff 2025/2024
Construction Sector	5,536	6,357	821
Manufacturing Sector	13,512	10,988	-2,524
Service Sector	12,556	13,918	1,361
Transport Sector	1,621	1,887	267
Trade Sector	10,409	12,277	1,868

Personal income tax revenues were collected in the amount of 63.1 billion lek, 13.3 billion lek or 26.7% more than the 9-month period of 2024, and 9 billion lek or 16.5% more than the initial plan for the period for 2025. The main factor in good performance comes as the result of the anti-informality campaign for the real declaration of wages in the private sector and the elimination of undeclared work as well as the measures taken in implementation of the Medium-Term Income Strategy and Action Plan for 2025. Other items also have an impact on personal income tax revenue for the first 9 months of 2025, such as:

- Revenues from payroll tax from the private sector amounted to 23.2 billion lek, with an increase of +27.5% compared to the 9-month period of 2024.
- Public sector payroll tax revenues amounted to 13.8 billion lek, an increase of +22.9% compared to the first 9 months of 2024.
- Interest income amounted to 2.9 billion lek, an increase of over 14% compared to the first 9 months of last year.
- Revenues from tax on the sale of real estate were realized in the amount of 6.1 billion lek, or 43.3% more than in the same period last year.
- Also, compared to the 9-month period of 2024, there is a 30% increase in income from tax on the Annual Individual Declaration because of the completion of the DIVA declaration for the period of 2024 by persons with income over 12 million lek.
- Revenues from rental tax were realized in the amount of 4.3 billion lek, or 8.8% more than in the same period last year.
- Income from lottery winners amounted to 68 million lek, or 51.8% more than in the same period last year.

National taxes for the 9-month period of 2025 were realized at the rate of 34.8 billion lek, 391 million lek or 1.1% more than the 9-month period of 2024, and -1.1 billion lek or -3.2% less than the initial plan for the 9-month period of 2025. It should be noted that the by-laws on gambling have not yet been approved and as a result, the planned amount of +2 billion lek in the initial planning in revenues from the fiscal policy of 2025 has not yet been implemented. The following have a significant impact on national tax collections for the first 9 months of 2025:

- Turnover tax with revenues of 17.4 billion lek with an increase from the previous year's period of 1.4 billion lek or 8.4% more, because of the increase in fuel quantities.
- Revenues from the annual tax on used vehicles resulted in 9.8% more than in the same period in 2024.
- Tax on plastic packaging which was implemented with an increase of 10.3% more than the same period in 2024.
- Tax on written premiums with income of 1.7 billion lek with an increase from the previous year's period of 131 million lek or 8.4% more.

- National carbon tax with revenues of 2.2 billion lek, an increase from the previous year of 25 million lek or 1.1% more.

Social and health insurance contributions are collected by the tax administration for employees, the Social Insurance Institute (ISSH) for the payment of voluntary contributions for farmers from F.S.D.K.SH who pay voluntarily. For the 9-month period of 2025, revenues collected from social and health insurance contributions amounted to 132.8 billion lek:

- Compared to the first 9 months of 2024, 14.5 billion lek or 12.3% more were collected.
- Compared to the initial plan for the 9-month period of 2025, 7.1 billion lek more have been collected and 105.6% of the initial plan has been achieved.

Table 4.2.6 Income from insurance contributions compared to the initial plan for the period by revenue collection administrations (*in millions of lek*)

	January – September 2025			
	Fact	Initial plan	Fact/plan difference	in % of plan
Total contributions	132,882	125,790	7,092	5.6%
General Directorate of Taxes	128,407	121,914	6,493	5.3%
Social Insurance Institute	4,321	3,835	486	12.7%
F.S.D.K.SH	154	41	113	274.2%

Tax administration collects 96% of total revenue from contributions. The increase in revenue from insurance contributions is based on these factors:

- Increase in public administration salaries, accompanied by an increase in the wage fund for the private sector as well.
- Measures taken in the Medium-Term Revenue Strategy and Action Plan for 2025 in the framework of good tax administration.

According to the payrolls for the period declared to the Tax Administration for the 9-month period of 2025, there are about 751,520 taxpayers on the payroll + 12,616 contributors or 1.7% more than the 9-month period of 2024. Jobs according to the payrolls for the period declared to the Tax Administration for the 9-month period of 2025, there are about 761,362 jobs, + 12,457 jobs or 1.7% more than the 9-month period of 2024.

Expenditures for the period January-September 2025

General Public Expenditures, for the nine-month period of 2025, reached the level of about ALL 517.3 billion, with a realization of 96 percent of the period's plan. Compared to the same period of 2024, this item resulted 12.5 percent higher or about ALL 57.7 billion more. In annual terms, total expenditures for the 9-month period of 2025, were realized at 62.7 percent of the annual plan according to the Initial Budget and 62.6 percent according to Normative Act no.6 dated 11.06.2025 (NA no.6).

Current expenditures, for the 9-month period of 2025, reached the level of about ALL 457.6 billion or 97.1 percent of the period's plan. Compared to the same period of the previous year, this item resulted 11.3 percent higher or about ALL 46.4 billion more. In annual terms, current expenditures for the 9-month period of 2025 resulted 69.8 percent of the Initial Budget and 69.3 percent of the changed annual plan (according to NA no.6).

The main items that affected the realization of current expenditures, are respectively:

- Operational and Maintenance expenditures: 101.8 percent of the period's plan, 64.2 percent of the Initial annual plan and 61.4 percent of the changed annual plan.
- Expenditures for Special Funds: 99.2 percent of the period's plan and 72.4 percent of the Initial and changed annual plan.
- Personnel expenditures: 98.4 percent of the period's plan, 73 percent of the Initial annual plan and 72.4 percent of the changed annual plan.

Personnel expenditures, for the nine-month period of 2025, represented 20.4 percent of the total current expenditures. Their actual level of about ALL 93.4 billion, realizes the forecasted level for this item in the 9-month period, at 98.4 percent. Compared to the same period of 2024, this item resulted 15 percent higher or about ALL 12.2 billion more. In annual terms, this item resulted 73 percent of the Initial annual plan and 72.4 percent of the changed annual plan.

- Wages expenditures at the end of September 2025, were realized at about ALL 79.9 billion or 98.6 percent of the period's plan. Compared to the same period of 2024, this item results 15.1 percent higher or about ALL 10.5 billion more. In annual terms, wages expenditures resulted 73.1 percent of the Initial annual plan and 72.6 percent of the changed annual plan.
- Expenditures for social security resulted at about ALL 12.9 billion or 99.2 percent of the period's plan. Compared to the same period of 2024, this item results 15.7 percent higher or ALL 1.8 billion more. In annual terms, expenditures for social security resulted 74.8 percent of the Initial annual plan and 73.6 percent of the changed annual plan.

Interest expenditures, for the nine-month period of 2025, represented 10.1 percent of the total current expenditures. Their actual level of about ALL 46 billion, realizes the forecasted level for this item in the 9-month period, at 92.4 percent. Compared to the same period of 2024, this item resulted 2.8 percent higher or about ALL 1.3 billion more. In annual terms, this item results 67.1 percent of the Initial and changed annual plan.

Operational and Maintenance expenditures, for the nine-month period of 2025, resulted about ALL 48.6 billion, or 101.8 percent of the period's plan. In annual terms, this item results 64.2 percent of the Initial annual plan and 61.4 percent of the changed annual plan. Compared to the same period of 2024, this item resulted 17.1 percent higher or about ALL 7.1 billion more.

Subsidies expenditures, for the 9-month period of 2025 resulted at about ALL 1.4 billion or 93.5 percent of the period's plan. In annual terms, this item results 73.4 percent of the Initial and changed annual plan. Compared to the same period of 2024, this item resulted 56.4 percent higher or ALL 516 million more.

Expenditures for Special Funds for the nine-month period of 2025 resulted about ALL 191 billion, with a realization of 99.2 percent of the period's plan or 72.4 percent of the Initial and changed annual plan. Respectively:

- Social insurance expenditures resulted about ALL 144.4 billion, with a realization of 99.9 percent of the period's plan and 75.1 percent of the Initial and changed annual plan.
- Health insurance expenditures resulted about ALL 45.7 billion, with a realization of 99.4 percent of the period's plan and 72.4 percent of the Initial and changed annual plan.
- Expenditures for owners' compensation resulted at about ALL 822 million, with a realization of 45.9 percent of the period's plan and 29.4 percent of the Initial and changed annual plan.

Compared to the same period of 2024, social insurance expenditures resulted about ALL 12.5 billion more, health insurance expenditures ALL 4.2 billion more and expenditures for owner's compensation at ALL 283 million more.

Other social expenditures for the nine-month period of 2025 resulted about ALL 18.6 billion, with a realization of 91.1 percent of the period's plan and 65.9 percent of the Initial and changed annual plan. Respectively:

- Unemployment Expenditures resulted about ALL 506 million or 89.9 percent of the period's plan. In annual terms, unemployment expenditures for the nine-month period of 2025 resulted 63.3 percent of the Initial and changed annual plan. Compared to the same period of 2024, this item resulted in a decrease of 21.4 percent or ALL 137 million less.
- Expenditures for Social Assistance and Disability Payment resulted about ALL 16.6 billion or 94.3 percent of the period's plan. In annual terms, this item results 69.9 percent of the Initial and changed annual plan. Compared to the same period of 2024, this item resulted 5 percent lower or about ALL 873 million less.
- Expenditures for compensation for ex-political prisoners resulted about ALL 595 million or 65.5 percent of the period's plan. In annual terms, this item resulted 42.5 percent of the Initial and changed annual plan. Compared to the same period of 2024, this item resulted 15.4 percent lower or ALL 108 million less.
- Expenditures for the birth bonus for the nine-month period of 2025 resulted at ALL 900 million or 66.7 percent of the period's plan. In annual terms, this item results 40 percent of the Initial and changed annual plan. Compared to the same period of 2024, this item resulted 35.7 percent lower or ALL 500 million less.

Expenditures for Local Government for the nine-month period of 2025, represented 12.8 percent of the total current expenditures. Their actual level of about ALL 58.7 billion, realizes the forecasted level for this item in the nine-month period at 91 percent or 65.3 percent of the Initial and changed annual plan. Compared to the same period of 2024, this item results 20.2 percent higher or about ALL 9.9 billion more.

Capital expenditures, for the nine-month period of 2025, reached the level of about ALL 58.5 billion or 87.7 percent of the period's plan. Compared to the same period of 2024, this item results about 21.2 percent higher or about ALL 10.2 billion more. Respectively:

- Domestic financing for the 9-month period of 2025 reached the level of about ALL 41.1 billion or 92.3 percent of the period's plan. Compared to the same period of 2024, this item resulted 29.5 percent higher or about ALL 9.4 billion more.
- Investments from Higher Education revenues reached the level of ALL 522 million, resulting 96.9 percent of period's plan. Compared to the same period of 2024, this item resulted 11.3 percent lower or ALL 67 million less.
- Foreign financing reached the level of about ALL 14.8 billion, resulting 78.7 percent of the period's plan. Compared to the same period of 2024, this item resulted 34.8 percent higher or about ALL 3.8 billion more.

In annual terms, capital expenditures for the nine-month period resulted 36 percent of the Initial annual plan and 36.8 percent of the changed annual plan. Respectively:

- Domestic financing resulted 36.5 percent of the Initial annual plan and 37.6 percent of the changed annual plan.
- Investments from Higher Education revenues resulted 52.2 percent of the Initial and changed annual plan.
- Foreign financing resulted 33.9 percent of the Initial and changed annual plan.

Reconstruction fund for 2025 is planned in the amount of ALL 5 billion. For the 9-month period the execution of this fund amounts to about ALL 2.1 billion.

The level of surplus for the nine-month period of 2025 resulted about ALL 45.6 billion from about ALL 18.1 billion planned. Compared to the same period of 2024, the level of surplus for the 9-month period of 2025 resulted about 34.2 percent lower or about ALL 23.7 billion less.

4.3. Budget plans for the ERP submission year

The revenue programming for 2026 supports the Ministry of Finance's goals of increasing revenues, as well as keeping the budget deficit and public debt under control. This program is based on improving fiscal administration and minimizing informality in the economy, as well as on the factors that will impact this period and the possible risks that may arise.

In programming revenues from Taxes and Customs for 2026, the main factors affecting the budget have been taken into account, including the effect of economic growth and the price index, the effects of old and new tax and budgetary policies, the effects of the implementation of the measures of the Medium-Term Revenue Strategy and Action Plan (MTRS), 2024-2027, accompanied by legal anti-evasion measures aimed at increasing the level of taxpayer voluntary compliance with the law. Tax and customs revenues, including contributions collected by the tax administration, are projected based on these elements:

- Macroeconomic framework with real GDP growth of 4%.
- Forecasted inflation of 3%.
- Effects of previous tax policies.
- Effects of tax and budget policy, for the year 2026.
- Effects on revenues from the implementation of the SAA, for the year 2026.
- Other effects from good governance and fiscal risks.

In the planning, macroeconomic factors are harmonized with the main indicators that affect specific taxes. In detail, the main indicators for revenue programming are:

- Nominal GDP growth, analyzing this effect in an integrated manner with other factors for each tax, related to historical data and price projections in international markets for ad-valorem taxes such as Value Added Tax, Mining Rent and Customs Duty.
- Exchange rate of the two main currencies: USD and EURO with the Lek.
- Expected prices and quantities of imported goods of the main commodity groups, which affect VAT and mineral royalty revenues. In particular, the import quantities and prices of the 60 main commodity groups that cover over 80% of customs revenues have been analyzed, as well as their performance trend for the following year.
- Revenues from excise duties on fuels, cigarettes, beverages, etc., because of their expected quantity.

Revenue forecast by item for 2026

In 2026, revenues from “Taxes and Customs” are projected to be 531,137 million lek, an increase of 31,516 million lek or an increase of 6.3% compared to revenues from “Taxes and Customs” for 2025 which are expected to be 499,621 million lek according to Normative Act no. 10, dated 08.10.2025. For 2026, these projected revenues amount to 19.1% of GDP or 0.2% of GDP more than the revenue expectation for 2025.

Value Added Tax “Net VAT” revenues for 2026 are projected to be around 242.5 billion lek, or 15.9 billion lek or 7% more than the 2025 expectation of 226.7 billion lek. For 2026, the projected VAT revenues

amount to 8.7% of GDP or 0.14% of GDP more than the net VAT revenue expectation for 2025. VAT in 2026 includes:

- The increase in VAT revenues generated by additional economic growth and the price index by 11.1 billion lek.
- Improving VAT administration by implementing SAA measures, for 2026 to the extent of 5.3 billion lek.
- The effects of the new tax policy for 2026, in the amount of -1.5 billion lek from the new farmers' scheme according to which the compensation rate is 10% of the total sales of invoices to VAT taxable persons, and effects from previous policies in the amount of 0.3 billion lek.
- Expected revenue to be collected from the implementation of the amnesty law, in the amount of 1.5 billion lek.
- Fiscal risks for customs revenues of around -0.9 billion lek.

For 2026, VAT refunds from tax administration are expected to be 28 billion lek, increasing by 4.9% or 1.3 billion lek compared to the 2025 expectation.

Profit Tax revenues for 2026, are expected to be around 65.1 billion lek, or 4.7 billion lek or 7.8% more than in 2025 which is expected to be 60.4 billion lek. For 2026, the projected revenue from the profit tax amounts to 2.3% of GDP or 0.05% of GDP more than the expected revenue from the profit tax for 2025. The profit tax forecast for 2026 is based on:

- Revenues from good administration within the framework of the implementation of SAA measures, for 2026, in the amount of 3.3 billion lek.
- Expected revenue to be collected from the implementation of the amnesty law, in the amount of 0.9 billion lek.
- Revenues from the implementation of previous tax policies and conversely from the abolition of the application of the reduced corporate income tax rate of 5% for the IT sector. From January 1, 2026, for taxpayers operating in this sector, the full corporate income tax rate of 15% will be applied and the revenue forecast is about 523 million lek.

Excise revenues for 2026 are forecasted at 74.7 billion lek, + 3.7 billion lek or +5.2% more than expected for 2025. For 2026, the forecasted revenues from excise amount to 2.7% of GDP or the percentage of excise revenues for 2025 in relation to GDP. The main factors in forecasting excise revenue are mainly related to the consumption of fuels, tobacco products which have a positive trend, as well as several other factors such as:

- The increase in excise revenue generated by economic growth to the extent of 2 billion lek.
- Increase in revenues from the effects of previous policies by 667 million lek. Based on the excise law, every two years, excise tax levels are indexed, except for cigarettes, by 1.5%. This rule will be implemented for the year 2026. In addition to the effect on excise tax revenues, there is also an effect on VAT of 20% of 667 million lek, i.e. 133 million lek VAT on imports.
- Expected revenue to be collected from the implementation of the amnesty law, in the amount of 207 million lek.
- Revenues from the implementation of the cigarette excise tax increase schedule, estimated at 850 million lek in excise duty and 170 million lek in import VAT. This policy is also included in the SAA.

Personal income tax (PIT) revenues for 2026, are projected at around 88.3 billion lek, an increase of 4.9%

or 4.1 billion lek more than expected for 2025. For 2026, projected personal income tax revenues amount to 3.2% of GDP or 0.01% of GDP more than expected corporate income tax revenues for 2025. The following are considered in the revenue forecast:

- The increase in income generated by economic growth amounts to 2.4 billion lek;
- The increase in revenues from the effects of previous policies amounted to -1.2 billion lek and specifically:
 - In 2026, the policy of deducting 48 thousand lek for each child under the age of 18 will be implemented for the first time. Based on the calculations, it results that the tax administration will compensate about 1.5 billion lek.
 - In 2026, the annual exclusion threshold for the annual income of employees will be implemented. Based on tax administration data, it results that an amount of 2.062 billion lek will be compensated by the tax administration.
- TAP from the private sector has increased by over 27% compared to 2024 due to the work of the tax administration to increase the real declaration of wages. This good administration will continue throughout 2026 with different sectors, such as the construction and manufacturing sectors, etc. Also, the private sector is expected to follow the increase in wages with indexation as the public sector will do. In total, for 2026, around +2.32 billion lek have been calculated from this good administration.
- Revenues from the implementation of the budget policy for 2026, related to the indexation of salaries in the public sector. Approximately 10 billion additional lek are foreseen in the salary fund, of which approximately 1.3 billion lek are revenues from TAP.
- Expected revenue to be collected from the implementation of the amnesty law, in the amount of 49 million lek.
- Revenues from good labor market management as a measure foreseen in the SAA for 2026, with about 382 million additional lek, as well as an increase in the rent tax, with about 1.28 billion additional lek, which in total are about 1.7 billion lek.

National and other taxes revenues for 2026 are projected to be around 49.6 billion lek. For 2025, revenues from this item are expected to reach 47.1 billion lek, reflecting an increase of 5.3% for 2026. For 2026, the projected revenues from national and other taxes amount to 1.8% of GDP or the percentage of revenues from national and other taxes for 2025 in relation to GDP. The projections for this tax for 2026 consider:

- The effect of tax measures from the gambling legislation amounts to around 2 billion lek.
- The effects resulting from the previous effects of taxes and specifically the policies of the calendar of the increase in carbon tariffs in July 2026 from 3 lek/kg to 4.5 lek/kg. According to calculations, for the second half of 2026 this effect on additional revenues is in the amount of 70 million lek carbon tax and about 14 million lek VAT on imports, as well as.
- Expected revenue to be collected from the implementation of the amnesty law, in the amount of 413 million lek.

Customs duties revenues in 2026 are programmed at 10.9 billion lek, with an increase of 645 million lek or 6.3% more than expected for 2025. For 2026, the projected revenues from customs tax amount to 0.4% of GDP or the percentage of customs tax revenues for 2025 in relation to GDP. In programming revenues for 2026, the following were taken into consideration:

- The effects of economic growth amounting to 287 million lek,

- Indexation in the amount of 216 million lek, as well as,
- Expected revenue to be collected from the implementation of the amnesty law, in the amount of 142 million lek.

Income from contributions revenues from social and health contributions (DPT, ISSH and FSDKSH) are expected to be 196,967 million lek, with an increase of 20,165 million lek compared to the expected revenues from Contributions according to Normative Act No. 10, dated 08.10.2025 or with an increase of 11.4%. For 2026, these projected revenues amount to 7.1% of GDP or 0.39% of GDP more than the revenue expectation for 2025 which is 6.7% of GDP. The programmed increase in income for 2026 is based on the projected macro factor with an effect on employment and contributions, such as:

- Revenue from economic growth in the amount of 5 billion lek,
- The effect of tax/budgetary measures such as salary indexation in public administration and the increase in the minimum wage from 40-50 thousand lek with about 11.82 billion lek, of which about 9 billion lek from the increase in the minimum wage and 2.79 billion lek from salary indexation in public administration.
- Additional revenues from the implementation of measures in the SAA, for 2026, in the amount of 1.1 billion lek.
- Expected revenues to be collected from the implementation of the amnesty law, in the amount of 545 million lek, as well as effects from previous policies in the amount of 1.75 billion lek.

Expenditure forecast by item for 2026

The total public expenditure for 2026 is planned at ALL 886.7 billion or 31.9% of GDP.

Personnel expenses for 2026 reflect the current cost of the Public Administration, the full cost of salary indexation at the level of 2.5%, as well as the effects of the implementation of the minimum wage of ALL 50,000 per month. The total cost of the minimum wage increase together with indexation is estimated at around ALL 10 billion. Total salary expenses for the Public Administration at the central level for 87,112 employees are planned at ALL 140.1 billion or 5% of GDP.

Interest expenses are projected at ALL 64.2 billion or 2.3% of GDP, including a reserve of ALL 6.3 billion to mitigate possible risks from fluctuations in interest rates, exchange rates, etc.

Operating and maintenance expenses for central government in 2026 (excluding expenses incurred by public institutions financed from their own revenues) are projected at ALL 80.7 billion or about 2.9% of GDP. This category includes priority support for existing central government policies such as farmers' schemes, maintenance of national roads, maintenance of IT systems and cybersecurity, employment promotion programs, schemes supporting economic development, and support for education and sports.

Local government budget expenditures for 2026 are projected at ALL 97.7 billion, marking an increase of 9% compared to the 2025 budget. This expenditure represents 3.52% of GDP, up from 3.4% in 2025 and 2.3% in 2015. The unconditional transfer for 2026 is projected at ALL 27.8 billion, an increase of ALL 1.6 billion or about 6% more than in 2025. Compared to 2015, the year before the implementation of the administrative-territorial reform, this transfer has increased by ALL 15.5 billion, more than doubling.

In addition to the unconditional transfer, the following additional funds are planned for 2026:

- ALL 13.8 billion as sectoral unconditional transfer for new functions.
- ALL 200 million as a performance grant, used as a financial mechanism to encourage performance in local governance.

- ALL 5.5 billion as sectoral transfer for salary increases.

In total, the grant from the state budget for local government in 2026 will reach ALL 47.3 billion, up from ALL 43.1 billion in 2025, an increase of ALL 4.2 billion or 9.7%.

Special fund expenditures, which include total expenses for Social Security, Health Insurance Funds, and compensation for former property owners, are planned at ALL 286.6 billion. The level of expenditure for the Social Security Scheme for 2026 is projected at ALL 204.1 billion or 7.3% of GDP. From this fund, ALL 1.65 billion is planned for pension indexation and ALL 10 billion for the monthly bonus for pensioners. Meanwhile, expenditures for the Health Care Insurance Scheme for 2026 are projected at ALL 67.3 billion or 2.4% of GDP. For 2026, the Health Insurance Fund budget includes an additional ALL 1.5 billion, respectively ALL 500 million for reimbursement of oncology drugs in primary care and ALL 1 billion for hospital services to ensure oncology drugs. Finally, expenditure for the Property Compensation Fund is projected at ALL 3.5 billion or 0.1% of GDP.

Other social expenditures include funds for unemployment benefits, disability, economic assistance, compensation for former politically persecuted individuals, and birth bonuses:

- Unemployment benefit expenditures are projected at ALL 1 billion.
- Expenditures on economic assistance and disability are projected at ALL 23.9 billion or 0.9% of GDP.
- For former politically persecuted individuals, a fund of ALL 1.5 billion or 0.1% of GDP is planned.
- For birth bonuses, a fund of ALL 2.3 billion or 0.1% of GDP is planned.

Subsidy expenditures are projected at ALL 2.45 billion or about 0.1% of GDP. State subsidies for 2026 focus on financing employment promotion schemes, supporting the water supply and sewerage sector based on its performance, as well as covering part of the expenses of railway operations and government service activities. Compared to 2025, this category shows an increase of ALL 500 million, of which ALL 450 million is allocated to subsidies for employment promotion programs to fulfill commitments under the EU Growth Plan and to address the effect of indexation due to the increase in the minimum wage.

Public investments for 2026 are planned at 6.5% of GDP or ALL 179.8 billion (including the reconstruction fund of ALL 5 billion and ALL 6.8 billion expected project-based financing from the EU Growth Plan). Investment planning for 2026 considers all contractual obligations for investment projects financed by foreign and domestic sources, with priority given to ongoing projects. Compared to the revised 2025 budget, the volume of public investments in 2026 is projected to increase by about ALL 15.5 billion.

The reserve fund level for 2026 is planned at ALL 2.5 billion or 0.1% of GDP.

4.4. Medium-term budgetary outlook

The revenue programming methodology is based on well-known projection models, and on the detailed analysis of the factors affecting each tax or contribution. The model used is based on macroeconomic forecasts for the period 2026 - 2028 and the following in relation to the projected nominal economic growth, the projected price index, the possible movements of the exchange rate of currencies, the expected quantity, and the analysis of product group imports, as well as time series analyzes for each tax. Revenue forecasts also take into consideration the effects of the fiscal policies that will be implemented, as well as the projected effects for the increase of revenues based on the activities and operations that will be implemented in the framework of the improvement of tax and customs administration.

Based on the expected revenue forecast for 2025, according to AN 10, dated 8.10.2025, the forecast for 2026, for revenue from contributions, has been made. According to the methodology, based on the expected revenue for 2025, the following have been applied:

- Effects from economic growth indicators of about 5 billion lek.
- Effects of previous tax policies, by about 1.75 billion lek.
- Effects of tax and budget policy for 2026, by about 11.82 billion lek.
- Effects of the amnesty law for 2026, by about 0.54 billion lek.
- Effects from the implementation of the measures set out in the SAA, for 2026, by about 1.1 billion lek.

Table 4.4.1 Tax revenue forecast

Tax type	2023	2024	Expected	Forecast	Forecast	Forecast	Difference 2026-2025	
			2025	2026	2027	2028	Value	in %
Total net VAT	192,322	213,999	226,687	242,546	256,277	271,821	15,860	7.0%
Profit tax	64,576	56,995	60,387	65,078	68,632	72,589	4,691	7.8%
Excise	58,394	63,437	70,961	74,672	78,750	83,290	3,711	5.2%
Personal income tax	57,878	66,143	84,212	88,339	93,252	98,815	4,127	4.9%
Total national taxes	40,188	47,418	47,107	49,589	52,298	55,260	2,483	5.3%
Customs tax	9,133	8,973	10,267	10,912	11,464	12,068	645	6.3%
Total GPD+GPT	422,491	456,965	499,621	531,137	560,673	593,844	31,516	6.3%
Social and health insurance contributions	143,646	160,717	176,802	196,967	207,132	218,246	20,165	11.4%
Total GPD+GPT (Contributions)	566,137	617,682	676,423	728,103	767,805	812,090	51,681	7.6%

Source: Ministry of Finance (2025)

Medium Term Expenditures Overlook

For the years 2027-2028, *General Budget Expenditures* result in a decrease in percentage of GDP in 31.3% of GDP in 2027 and a slight increase of 32.8% of GDP in 2028.

This level of expenditures continuously supports the main objective of fiscal consolidation for reducing public debt and maintaining other macroeconomic parameters at stable levels, while at the same time accommodating pension reform effects.

Personnel expenses maintain the average level of 4.9% of GDP throughout 2027-2028. In 2028, a fund of 8.9 billion ALL is foreseen for the indexation of public administration salaries based on the average inflation to the extent of 0.3% of GDP. This policy is foreseen in Law no.35/2023 "On the competencies for setting salaries, other financial treatments and benefits for employees in public administration institutions, as well as the minimum basic wage at the national level", specifically "the council of Ministers is responsible for determining the annual indexation rate for salaries in public administration and the indexation must occur no later than two years from the last indexation, ensuring regular adjustments to salaries.

Interest expenses are planned to stay at a stable level of 2.4% of GDP based on the predictions of interest rates in the foreign and the domestic market throughout 2027 and 2028.

Operating and maintenance expenses are planned to decrease in 2027 to 2.8% of GDP compared to 3.1% of GDP planned in 2026. This is due to the removal of one-off policies that are expected to be implemented in 2026 from this item.

Expenditures for social funds remain at stable levels with an average of 10.3 % of GDP for the years 2027, while in 2028 increase by 0.5% pp resulting at 10.8% of GDP. This increase is related to the pension reform engagement of government and is based on calculations made by the Ministry of Economy and Innovation.

Expenditures for the local budget result in an increasing trend in 2027-2028, respectively of 3.5% of GDP in 2027 and 3.7% of GDP in 2028.

Investment expenses for the year 2027 result in a decrease of 6.3% of GDP compared to 6.5% of GDP planned in 2026, partially related to completion of investment projects within the established deadlines. In 2028, investment expenditure is forecasted at 6.6% of GDP accommodating new projects based on the government priorities.

In conclusion, for the years 2027-2028, as explained above, Government priorities remain the accommodation of public administration wages indexation, pension reform and new priority investment projects.

Medium-term central government financing needs

In the medium term, the Central Government financing needs will be achieved by using both domestic and external borrowing. Domestic borrowing sources will continue to be the main contributor to keep the foreign currency exchange risk under control. Despite the positive expectations in the activity of nonfinancial institutions, domestic borrowing will continue to rely mostly on the banking sector. Short term securities will be intended to such extend needed to refinance the existing short-term maturities, meanwhile the long-term securities will be targeted at increasingly portion to ensure the new financing besides the refinancing of the existing long-term maturities. In any case the borrowing plan will be driven also by the interest of the investors towards the type of instruments. Domestic borrowing structure will remain at some extend flexible in terms of government securities selection, depending on the market conditions (*the level of demand, interest rates, etc.*), to ensure an optimal trade-off between cost and risks.

In the medium-term external borrowing sources will contribute on the cost optimization of the debt portfolio, since a considerable part of this borrowing is expected to be conducted through loans to be obtained from multilateral and bilateral creditors which provides to the government more favorable financial terms than the market. External borrowing by bilateral and multilateral sources will be utilized mostly to finance the government important projects and the reforms undertaken by the government. Also, private sources of financing from the international capital markets will be targeted, mostly to manage refinancing risks on the years of peak on the repayment side and manage the debt liabilities in foreign currency. This would enable to keep the domestic borrowing within acceptable levels to avoid crowding out of the private sector crediting, and also to avoid pressure in the interest rates that would be present in cases of extended funding, beyond the normal capacities, of the domestic market.

4.5. Structural balance

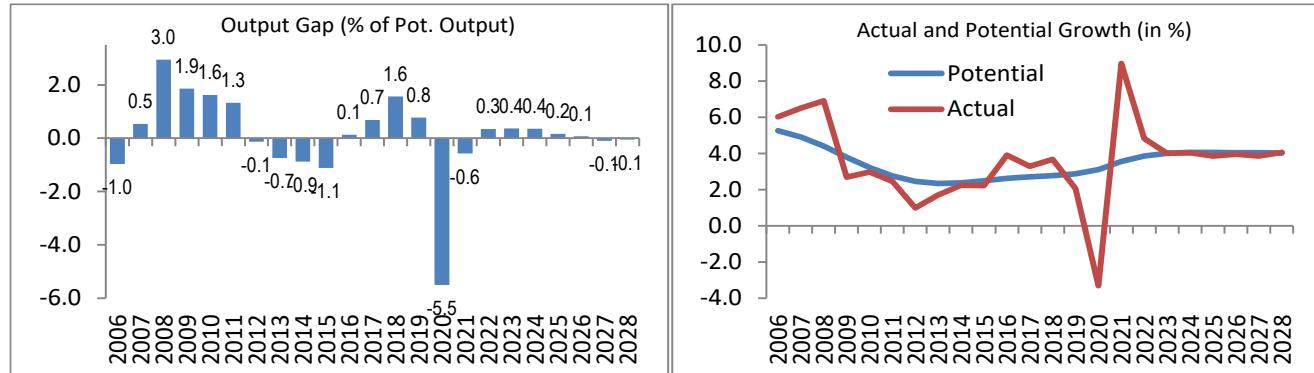
Estimating potential GDP and output gap

The potential GDP time series was derived using the Hodrick-Prescott (HP) filtering technique. The actual real output (GDP) in constant prices was filtered using three widely accepted lambda (λ) parameters from the literature for annual data: $\lambda=100$, $\lambda=30$, and $\lambda=6.5$. The final potential GDP was calculated as an average

of these three HP-filtered series. To mitigate the end-point bias inherent in this filtering technique, the analysis incorporated the Ministry of Finance (MoF) projections through 2035.

The output gap, defined as $G_t = \frac{GDP_{t,actual} - GDP_{t,potential}}{GDP_{t,potential}}$ is illustrated in the left panel of Figure 4.5.1, while the right panel presents the comparison between potential and actual growth.

Chart 4.5.1: Output gap (left), potential and actual growth (right)



Source: Ministry of Finance, (2025)

The estimates confirm that Albania's economy has experienced alternating periods of positive and negative output gaps over the past two decades. The analysis indicates that actual output was below potential in 2006 but shifted to positive territory in 2007, strengthening further in 2008. A positive output gap persisted through 2011, though it gradually narrowed as growth slowed under the impact of the global financial crisis.

While Albania avoided the severe recession experienced by many countries in 2009, economic growth weakened significantly compared to pre-crisis levels and relative to potential. By 2012, growth reached its lowest point, coinciding with a negative output gap that persisted for about four years and bottomed out in 2015. The gap turned marginally positive in 2016 and widened notably in 2017 and 2018, remaining positive in 2019 despite slower growth in the last quarter following the November earthquake. The COVID-19 pandemic in 2020 marked a sharp turning point, driving a recession of about -3.3 percent and pushing the output gap to its most negative level in decades, around -5.5 percent of potential GDP.

A milder contraction than initially feared, combined with a strong rebound in 2021 (8.9 percent growth) and robust performance in 2022 (4.8 percent), helped close the gap almost entirely by 2021. The gap shifted into positive territory in 2022 (0.4 percent), supported by exceptional tourism that offset global supply disruptions, high inflation, and tighter financial conditions. In 2023, despite monetary tightening and inflationary pressures, tourism-driven growth of 4.02 percent kept the economy aligned with potential growth of 4 percent. In 2024, actual growth is now confirmed at 4.05 percent, broadly matching potential growth and maintaining a small positive output gap of 0.4 percent. For 2025, based on data for the first three quarters and current projections, growth is expected to remain close to potential at around 4 percent, suggesting a virtually neutral output gap (+0.2 percent).

Under the baseline macroeconomic and fiscal scenario, growth is projected to stay near potential, around 4.0 percent annually through 2026-2028. This alignment implies a virtually neutral output gap over the medium term, indicating that Albania's economy will operate close to full capacity without significant overheating or underutilization.

Estimating elasticity and budget sensitivity to output gap

After removing one-off items from the fiscal indicators, the elasticities of revenues and expenditures were estimated using both the disaggregated approach (OECD 2005) and the aggregated approach (IMF 2010).

The overall elasticities obtained from each approach were respectively 1.025 and 1.441.⁴ To address cyclical effects, total revenues were adjusted by applying the average elasticity derived from both approaches, resulting in:

$$\varepsilon_{R,Y} = \text{average} (1.025, 1.441) = 1.233$$

In contrast to the estimated elasticity of revenues, the elasticity of expenditures did not differ significantly from zero. The regression analysis indicated a negative sign for the expenditures elasticity in both approaches, but none of them reached statistical significance at conventional levels, suggesting an elasticity coefficient equal to zero:

$$\varepsilon_{G,Y} = 0$$

Therefore, total expenditures were not adjusted for cyclical effects. Applying the formula for the sensitivity of the budget balance to the output gap (or the so-called semi-elasticity), we obtained the following value:

$$\sigma_B = r(\varepsilon_{R,Y} - 1) - g(\varepsilon_{G,Y} - 1) = 0.253(1.233 - 1) - 0.264(0 - 1) = 0.323$$

Here, $r = 0.253$ representing the average ratio of total revenues to GDP (excluding one-offs) for the last five years (2020 – 2024), and $g = 0.264$ is the average ratio of primary expenditures to GDP (excluding interest spending's and one-offs) for the same period. The estimated parameter of budget sensitivity (σ_B) implies that for each percentage point of negative (positive) output gap, the overall primary fiscal balance will deteriorate (improve) by 0.323 percentage points of potential GDP.

Estimating the cyclically adjusted fiscal balance and assessing the fiscal policy stance

Based on estimated output gaps (OG) and the budget sensibility parameter (σ_B) the cyclical component of the primary fiscal balance (CPB) in terms of potential GDP is calculated as:

$$CPB_t = \sigma_B * OG_t$$

Whereas, the automatic stabilizers (AS) are defined as the change in CPB in two consecutive years:

$$AS_t = CPB_t - CPB_{t-1}$$

The cyclically adjusted primary balance ($CAPB$) is calculated as the difference between the actual primary fiscal balance (PB) and its cyclical component (CPB):

$$CAPB_t = PB_t - CPB_t$$

The overall cyclically adjusted balance (CAB) is derived by subtracting interest expenditures (INT) from the cyclically adjusted primary balance:

$$CAB_t = CAPB_t - INT_t$$

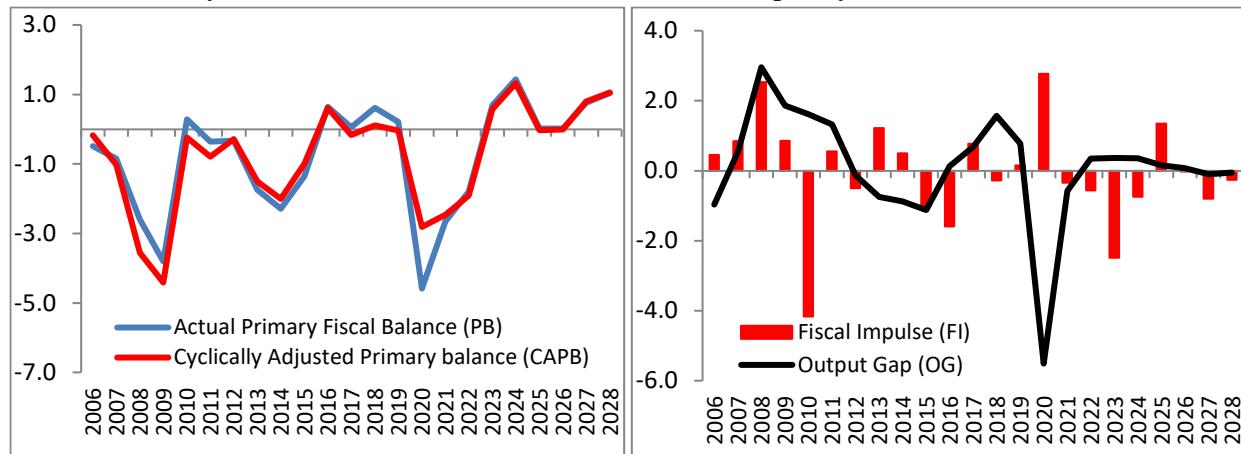
Fiscal impulse (FI) in terms of potential GDP represents the change in the cyclically adjusted primary balance from one year to the next:

$$FI_t = CAPB_{t-1} - CAPB_t$$

To evaluate the fiscal policy stance—factoring in the direction of the fiscal impulse (tightening or easing) and the output gap (negative or positive)—we assess whether policy was pro-cyclical, counter-cyclical, or neutral over specific periods. Our analysis spans from 2000, covers the factual years through 2025, and includes the medium-term outlook for 2026-2028. The fiscal stance is evaluated for four-year intervals, considering cumulative output gaps and fiscal impulses. The detailed empirical results are presented in the subsequent graph and tables.

⁴ Due to lack of data and relatively short series, in the case of disaggregated approach some of the estimated elasticity / coefficients were not significant at conventional levels and several assumptions were imposed.

Chart 4.5.2: Key estimated metrics used to assess the fiscal policy stance



Source: Ministry of Finance (2025)

Table 4.5.1: Fiscal policy stance

Year	Output Gap (OG)	Actual	Actual	Cyclical	Cyclically	Interest	Cyclically	Automatic	Fiscal	Fiscal stance relative to output gap, cumulative in 4-years intervals
		Overall Fiscal Balance (B)	Primary Balance (PB)	Primary balance (CPB)	Adjusted Primary balance (CAPB)	Expenditures (INT)	Overall Balance (CAB)	Stabilizers (AS)	Impulse (FI)	
1999	0.7	-9.4	-1.7	0.2	-1.9	7.7	-9.6	-	-	
2000	0.2	-7.7	-2.0	0.1	-2.1	5.7	-7.8	-0.2	0.2	
2001	1.7	-6.9	-2.9	0.6	-3.4	4.1	-7.5	0.5	1.4	
2002	-0.1	-6.0	-2.1	0.0	-2.0	3.9	-5.9	-0.6	-1.4	
2003	-0.9	-4.8	-0.6	-0.3	-0.3	4.3	-4.6	-0.2	-1.7	-4 -4 Pro-cyclical, skewed toward fiscal consolidation
2004	-1.3	-5.0	-1.3	-0.4	-0.8	3.7	-4.6	-0.2	0.5	
2005	-1.7	-3.4	-0.3	-0.5	0.3	3.2	-2.9	-0.1	-1.1	
2006	-1.0	-3.3	-0.5	-0.3	-0.2	2.8	-3.0	0.2	0.5	
2007	0.5	-3.4	-0.8	0.2	-1.0	2.5	-3.6	0.5	0.8	4 5 Pro-cyclical, skewed toward fiscal expansion
2008	3.0	-5.4	-2.6	1.0	-3.6	2.8	-6.4	0.8	2.5	
2009	1.9	-6.9	-3.8	0.6	-4.4	3.1	-7.5	-0.4	0.9	
2010	1.6	-3.0	0.3	0.5	-0.2	3.3	-3.6	-0.1	-4.2	
2011	1.3	-3.5	-0.4	0.4	-0.8	3.1	-3.9	-0.1	0.5	2 -3 Counter-cyclical
2012	-0.1	-3.5	-0.3	0.0	-0.3	3.1	-3.4	-0.5	-0.5	
2013	-0.7	-5.0	-1.7	-0.2	-1.5	3.2	-4.7	-0.2	1.2	
2014	-0.9	-5.1	-2.3	-0.3	-2.0	2.9	-4.9	0.0	0.5	
2015	-1.1	-4.0	-1.4	-0.4	-1.0	2.7	-3.7	-0.1	-1.0	-1 -1 Pro-cyclical, skewed toward fiscal consolidation
2016	0.1	-1.8	0.6	0.0	0.6	2.4	-1.8	0.4	-1.6	
2017	0.7	-2.0	0.1	0.2	-0.2	2.0	-2.2	0.2	0.8	
2018	1.6	-1.6	0.6	0.5	0.1	2.2	-2.1	0.3	-0.3	
2019	0.8	-1.9	0.2	0.2	0.0	2.1	-2.1	-0.3	0.2	-4 2 Counter-cyclical
2020	-5.5	-6.7	-4.6	-1.8	-2.8	2.1	-4.9	-2.0	2.8	
2021	-0.6	-4.6	-2.7	-0.2	-2.5	1.9	-4.4	1.6	-0.3	
2022	0.3	-3.7	-1.8	0.1	-1.9	1.8	-3.8	0.3	-0.6	
2023	0.4	-2.2	0.7	0.1	0.6	2.0	-1.4	0.0	-2.5	1 -2 Counter-cyclical
2024	0.4	-2.5	1.4	0.1	1.3	2.2	-0.8	0.0	-0.7	
2025	0.2	-2.1	0.0	0.1	0.0	2.3	-2.4	-0.1	1.4	
2026	0.1	-2.1	0.0	0.0	0.0	2.3	-2.3	0.0	0.0	
2027	-0.1	-2.1	0.8	0.0	0.8	2.3	-1.5	-0.1	-0.8	
2028	-0.1	1.0	0.0	1.1	2.3	-1.3	0.0	-0.3		

Source: Ministry of Finance (2025)

Table 4.5.2: Fiscal policy relative to economic cycles

Fiscal stance	Unit	Cumulative fiscal impulse --> Overall fiscal stance	
		2000 - 2025	2026 - 2028
Cumulative output gap	p.p. of GDP	1	0
Cumulative fiscal impulse	p.p. of GDP	-2	-1
Overall fiscal stance		Counter-cyclical	Neutral

Source: Ministry of Finance (2025)

The final column of Table 4.5.1 presents a qualitative appraisal of the fiscal stance across successive four-year intervals. The assessment jointly considers the cumulative output gap and the corresponding cumulative fiscal impulse to determine whether policy was counter-cyclical, neutral, or pro-cyclical in each interval. Where the stance is judged pro-cyclical, an additional qualifier specifies whether the pro-cyclical reflects fiscal consolidation or fiscal expansion.

For illustration, during 2002-2005 both the cumulative output gap and the cumulative fiscal impulse were negative ($OG \approx -4.0$ p.p., $FI \approx -4$ p.p.), indicating a “pro-cyclical” fiscal stance. Furthermore, given that cumulative fiscal impulses were contracting (negative), it is further qualified as “pro-cyclical and tilted/skewed toward fiscal consolidation”. By contrast, over 2006-2009, both metrics were positive ($OG \approx +4$ p.p., $FI \approx +5$ p.p.), signifying a “pro-cyclical stance tilted toward fiscal expansion”. Conversely, the intervals 2010-2013, 2018-2021, and 2022-2025 exhibit counter-cyclical behaviour, as evidenced by the opposing signs of the cumulative output gaps and the corresponding cumulative fiscal impulses in each period.

Applying a consistent assessment methodology, Table 4.5.2 provides an evaluation spanning the entire period from 2000 to 2025, wherein all estimations are grounded in actual or nearly actual statistics, including projections for 2025. For this period, the cumulative output gap is estimated at +1 percentage points of potential GDP, while the cumulative fiscal impulse stands at -2 percentage points of GDP, resulting in an overall fiscal stance assessed as “counter-cyclical”. Looking ahead to the medium-term horizon (2026-2028), projections indicate a cumulative output gap of about 0 percentage points of GDP and a cumulative fiscal impulse of approximately -1 percentage points of GDP, leading to an expected neutral fiscal stance. This suggests that fiscal policy will neither amplify nor offset the economic cycle during this period.

4.6. Debt levels and developments, analysis of below-the-line operations and stock-flow adjustments

The debt portfolio has been successfully managed during the nine-month period January-September 2025 in line with macro fiscal objectives, financing needs and medium-term strategic debt management objectives.

Central Government Debt

At the end of September 2025, the Central Government Debt amounted to ALL 1400.8 billion or 53.0%⁵ of GDP. In the following years, the ratio of debt-to-GDP will be planned lower than the level of the previous year, until the debt level reaches and stays below 45% of GDP, being in accordance with the relevant fiscal

⁵ GDP as referred to Draft Macroeconomic and Fiscal Framework as of 4th November 2025

principle defined in the legal framework.

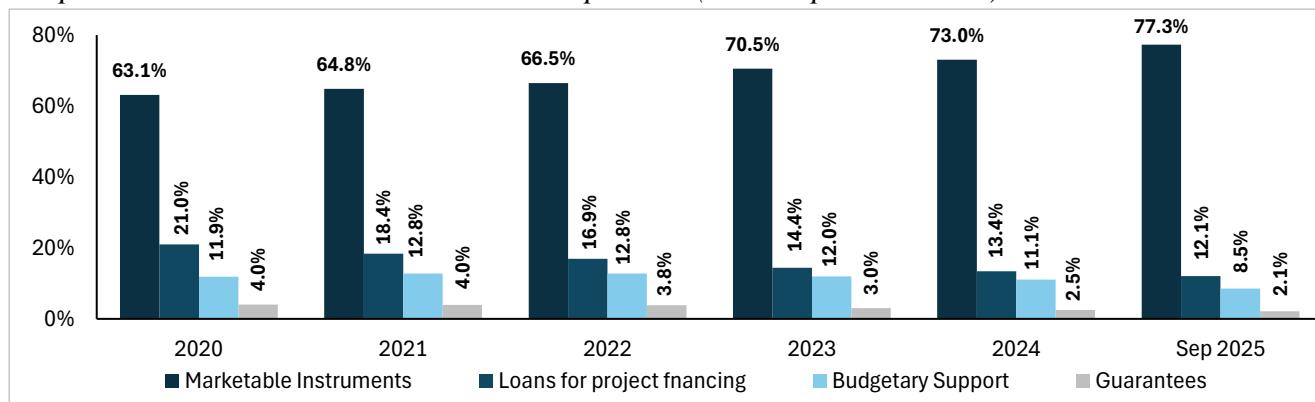
Table 4.6.1: Stock of total central government debt 2020 - September 2025

	2020	2021	2022	2023	2024	Sep 2025
Total Debt Stock	1,224,038.2	1,382,624.9	1,378,421.5	1,362,726.6	1,364,980.7	1,400,752.5
Domestic Debt Stock	644,087.8	702,255.5	732,653.9	741,778.1	788,359.8	808,437.7
Government	630,791.1	678,880.9	712,779.4	725,398.7	774,197.3	799,892.5
Guaranteed	13,296.7	23,374.7	19,874.5	16,379.4	14,162.6	8,545.2
External Debt Stock	579,950.4	680,369.3	645,767.6	620,948.5	576,620.9	592,314.8
Government	544,434.4	648,847.9	613,421.2	595,990.8	557,198.2	570,790.9
Guaranteed	35,516.0	31,521.4	32,346.4	24,957.6	19,422.6	21,523.9
GDP	1,655,984.0	1,866,672.0	2,149,742.0	2,364,276.0	2,517,820.0	2,642,508.6
Total Debt Stock/GDP	73.9%	74.1%	64.1%	57.6%	54.2%	53.0%
Domestic Debt Stock/GDP	38.9%	37.6%	34.1%	31.4%	31.3%	30.6%
External Debt Stock/GDP	35.0%	36.4%	30.0%	26.3%	22.9%	22.4%

Source: Ministry of Finance, 2025

Regarding the composition of the central government's debt portfolio by instruments, more than 70% of the weight continues to be held by marketable instruments (Treasury Bills, Bonds and Eurobonds). The weight of marketable instruments is increased from year to year mainly due to more frequent issuances in the international markets, but also because of the increase in borrowing in the domestic market, reflecting the high financing needs during the last years starting from 2020.

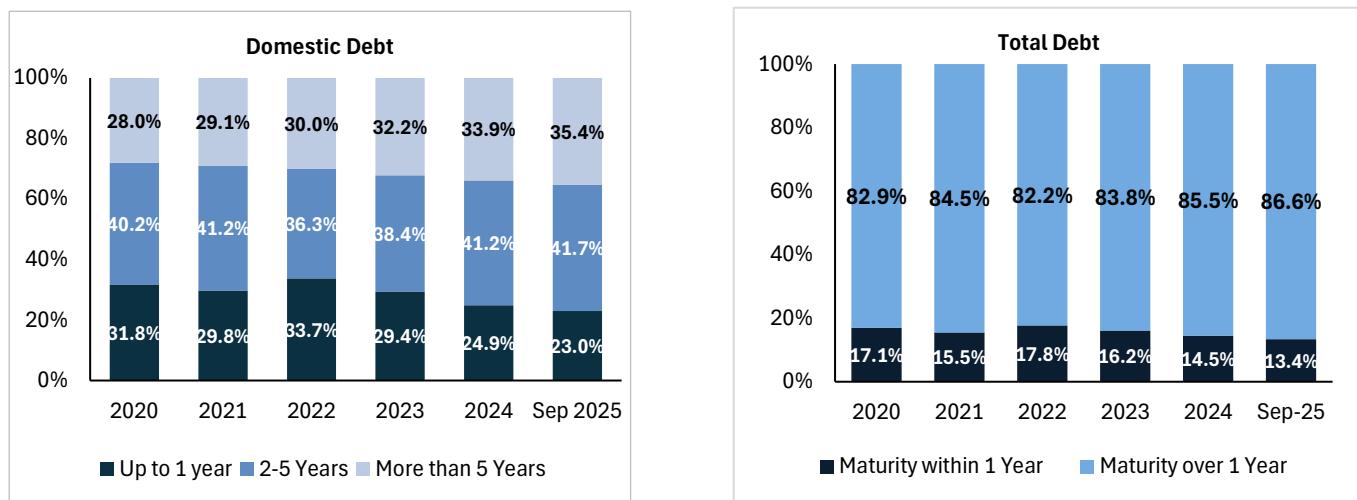
Graph 4.6.1: Central Government Debt Composition (2020-September 2025)



Source: Ministry of Finance, 2025

In terms of maturity structure, in the domestic debt portfolio the medium-term bonds (2-5 years) hold the largest weight (41.7%) as of September 2025. In accordance with the strategic objective of increasing the maturity of the domestic debt portfolio, the weight of long-term securities (7 years, 10 years, 15 years, 20 years) increased by 1.5 pp, while the weight of short-term securities decreased by 2.0 pp. The weight of floating-rate securities also decreased during this nine-month period, as there were no floating-rate securities issues during this period, in line with the objectives of reducing interest rate risk and avoiding fragmentation of demand for securities with similar maturities. Meanwhile, external debt consists mainly of long-term loans, as well as long-term instruments (5-, 7- and 10-year Eurobonds issued in international markets).

Graph 4.6.2: Government Debt Composition (2020 – September 2025)



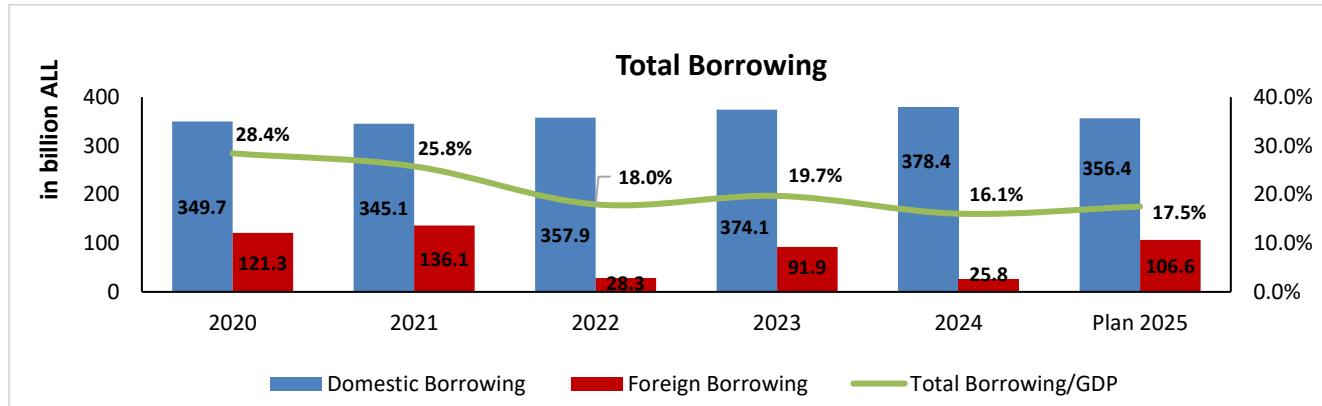
Source: Ministry of Finance, 2025

Financing Needs

Over the last years, borrowing has been realized in accordance with budgetary needs and in accordance with strategic objectives for maintaining the stability of the relationship between cost and risk ratios.

The period January-September 2025 has been a positive period in terms of securing financing, both in the domestic and foreign markets. Borrowing during the period January-September 2025 was carried out in line with the 2025 budget as well as in line with the 2025 Borrowing Plan. Borrowing in gross terms was realized in the amount of ALL 365.8 billion, out of which 78.7% (or ALL 288.0 billion) was financed through domestic sources and 21.3% (or ALL 77.8 billion) through foreign sources.

Graph 4.6.3: Total Financing 2019-2025



Source: Ministry of Finance, 2025

During January-September 2025, Ministry of Finance issued securities in the domestic market at the amount of ALL 288.0 billion, out of which ALL 155.8 billion belong to short-term bonds and ALL 132.2 billion belong to long-term bonds. In line with the Medium-Term Debt Management Strategy, the frequency and value of long-term instrument issuances increased during nine months of 2025. The demand for government securities was higher than the Government's offer in almost all auctions conducted during nine months. Net borrowing in the domestic market at the end of September 2025 amounted to ALL 26.5 billion and was achieved entirely through long-term instruments.

Table 4.6.2: Domestic Borrowing (January-September 2025)

Domestic Financing	January-September 2025		
	Issuances (in billion ALL)	Maturities (in billion ALL)	Net Financing (in billion ALL)
Short Term Instruments	155.8	165.2	-9.3
T. Bills	155.8	165.2	-9.3
Long Term Instruments	132.2	96.4	35.8
2Y Bonds	37.6	37.2	0.5
3Y Bonds	24.2	19.4	4.8
5Y Bonds	30.1	20.6	9.5
7Y Bonds	17.4	10.1	7.3
10Y Bonds	10.5	9.1	1.4
15Y Bonds	6.3	0.0	6.3
20Y Bonds	6.0	0.0	6.0
Total Domestic Financing	288.0	261.5	26.5

Source: Ministry of Finance, 2025

Regarding foreign borrowing, during the first nine months of 2025, gross foreign borrowing amounted to ALL 77.8 billion. The main weight in foreign borrowing during this nine-month period was held by Eurobond. In February 2025, the Republic of Albania issued its seventh Eurobond, in the amount of EUR 650 million, with a ten-year maturity, a 4.75% coupon, a 5.0% yield, and a final book of over 2.5 billion euros.

Table 4.6.3: External Borrowing

Gross Foreign Financing	January-September 2024		January-September 2025	
	in billion ALL	in %	in billion ALL	in %
Loans for Project Financing	8.6	59.9%	10.8	13.9%
Budgetary Support	5.7	40.1%	3.9	5.0%
Eurobond	0.0	0.0%	63.1	81.1%
Total Huamarraja e Huaj	14.3	100.0%	77.8	100.0%

Source: Ministry of Finance, 2025

Cost and risks

Regarding cost and risk ratios, the Ministry of Finance has continued its efforts to reduce exposure to risks by keeping costs at the lowest possible level under current market conditions.

The Medium-Term Debt Management Strategy aims to further improve the debt structure (mainly the structure of the domestic debt portfolio), in terms of reducing exposure to risks, as well as keeping costs at the lowest possible levels, based on current market conditions. During nine months January-September of 2025, the structures at the Ministry of Finance responsible for debt portfolio management have continued their efforts within the framework of efficient debt portfolio management, and most of risk indicators have evolved towards strategic objectives. The selection of securities and the orientation of borrowing towards long-term securities with fixed interest rates has favored the evolution of risk indicators towards strategic objectives.

The maturity of domestic debt (average days to maturity) increased by 105 days, from 923 days (2.56 years) at the end of 2024 to 1028 days (2.85 years) at the end of September 2025. The weight of debt maturing within one year has increased from 39.0% at the end of 2024 to 40.73% in September 2025.

Regarding interest rate risk, the average time to refixing increased from 2.58 years in December 2024 to 2.87 years in September 2025, while the weight of instruments that refix the interest rate was increased from 39.3% at the end of 2024 to 40.73% in September 2025.

Exchange rate risk was kept under control, remaining considerably below the ceiling set in strategy. Specifically, the total stock of foreign currency debt to the total debt stock resulted in 41.6% as of September 2025.

Table 4.6.4: Domestic debt interest rate risk indicators

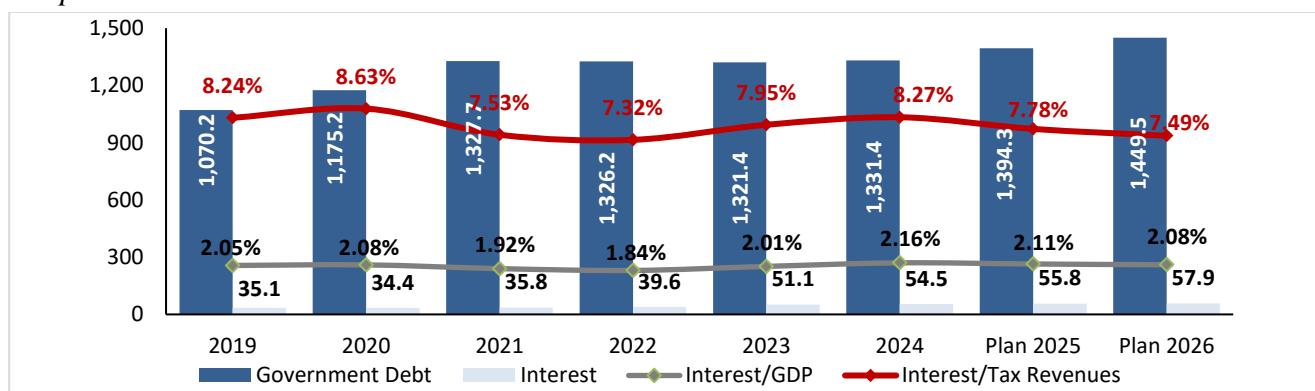
	Risk	2021	2022	2023	2024	Sep-2025	Medium term Objective 2026
Refinancing Risk	Debt maturing in one year	46.6%	47.9%	44.7%	39.0%	40.7%	Max 40%
	ATM	2.2	2.2	2.3	2.6	2.9	Min 2.5 Years
Interest Rate Risk	Debt re-fixing the interest rate in one a year	48.0%	49.0%	45.4%	39.3%	40.7%	Max 43%
	ATR	2.2	2.2	2.3	2.6	2.9	Min 2.5 Years
Exchange Rate Risk	Debt in foreign currency/Total	49.8%	46.8%	45.6%	41.9%	41.6%	Max 50%

Source: Ministry of Finance, 2025

During January-September 2025, debt interest expenses are estimated at ALL 46.0 billion, concretely ALL 32.1 billion for domestic debt interest and ALL 13.9 billion for external debt interest. External debt repayments for the period January-September 2025 were ALL 47.0 billion (principal payments). Compared to the first nine months of 2024, interest expenditures are estimated to be around 1.3 billion lek (or 2.8%) higher. The increase has occurred in the category of domestic market instruments, as a result of their concentration in long-term instruments.

However, the distribution of interest expenditures throughout the year also depends on the maturity profile of the debt portfolio. The increase in interest expenditures has remained within the amount projected in the 2025 draft budget. Additionally, the weighted average yield on Domestic Debt at the end of September 2025 resulted at 4.27% from 4.56% at the end of 2024 (a decrease by 29 pp). In the foreign debt portfolio, the average cost for 2025 is expected to result in 3.6% from the level of 3.7% at the end of 2024 (a decrease of 0.1 percentage points).

Graph 4.6.4: Debt Service 2020-2026



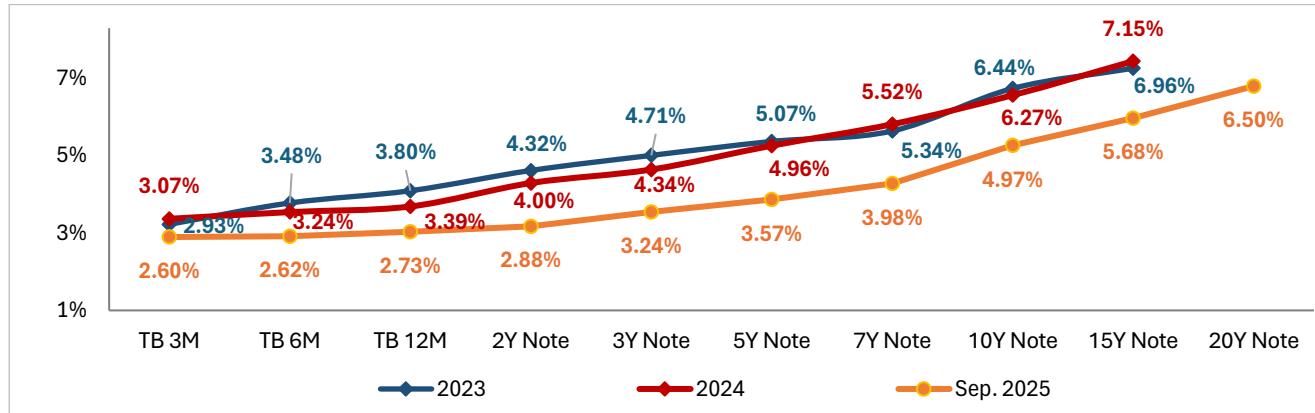
Source: Ministry of Finance, 2025

Interest Rate Development

The weighted average rates during the nine months of 2025 have decreased compared to the end of 2024, in line with the policy followed by the Bank of Albania, which pursued a normalizing monetary policy also

during the nine months of 2025, lowering the base interest rate to 2.50%, 25 basis points lower than at the end of 2024. Additionally, the decrease in weighted interest rates also reflects the excess liquidity and the increased demand from investors for government securities.

Graph 4.6.5: Weighted Average Yield for Government Securities

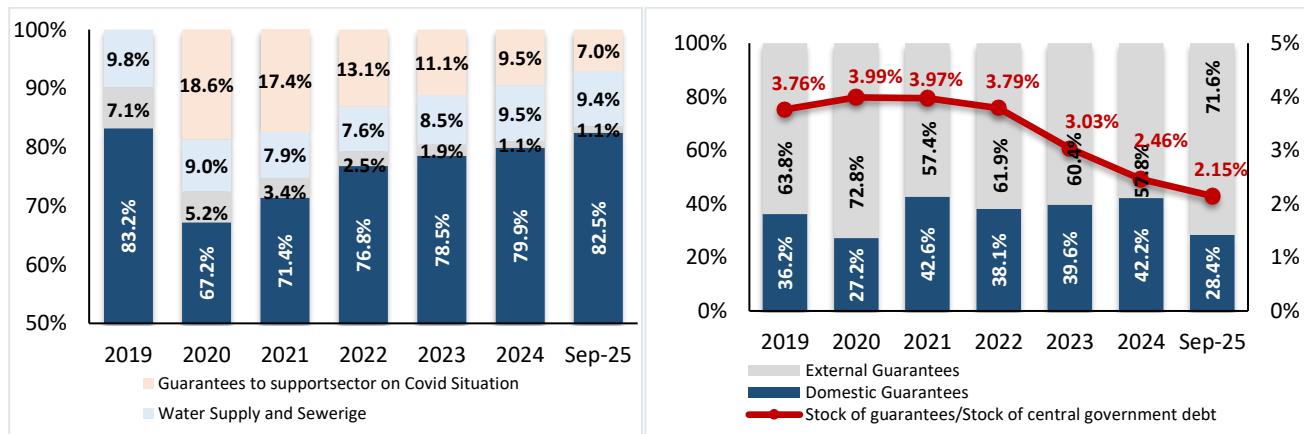


Source: Ministry of Finance, 2025

Contingent Liabilities

At the end of September 2025, the Guaranteed Debt portfolio stands at the level of ALL 30.1 billion 1.1% of GDP, or 2.15% of central government debt portfolio, marking a decrease of ALL 3.5 billion compared to the end of 2024. Guarantees in the domestic market account for approx. 28.4% of the total stock of guaranteed debt or ALL 8.5 billion, while guarantees given in favor of foreign creditors represent 71.6% of the stock of guaranteed debt or ALL 21.5 billion.

Graph 4.6.6: Central Government Guarantees (2020–September 2025)



Source: Ministry of Finance, 2025

From the total stock of guarantees, more than 80% of the total state guarantees belong to the energy sector, reflecting the government's policies in terms of supporting the energy sector.

In the medium term, the level of guaranteed debt is planned to be maintained below the level of 5% of GDP. In order to reduce the risk from the contingent liabilities arising from the state guarantees, the stock of the guaranteed debt is included 100% in the public debt stock. Such rule is defined in the organic budget law as a measure to minimise the risk of extra-budgetary activities.

In order to control/reduce the risk arising from the state guarantees, and to benefit from the advantages from the use of the guarantee instruments, the following guidance is intended to be applied for the issuance of government guarantees in the medium term:

- Government guarantees to be issued to state-owned enterprises, which have undertaken a reform initiative with an impact on strengthening their financial situation.
- Government guarantees may be issued to finance investment projects.
- Government guarantees may also be issued to support measures that can be taken in the event of a financial system crisis.
- Government guarantees may be issued for the purpose of restructuring the government guarantee portfolio replacing short term loans through long term ones.

4.7. Sensitivity analysis and comparison with the previous programme

This section systematically outlines the anticipated repercussions on the fiscal framework, overall fiscal policy, and potential budgetary adjustments under each alternative scenario, aligning with the two alternative macroeconomic scenarios detailed in section 3.3.

In the event of the "pessimistic" macroeconomic scenario, which postulates significantly lower economic growth each year compared to the baseline, a prudent approach for this sensitivity exercise involves assuming diminished tax collection efficiency for key tax components. Conversely, if the "optimistic" macroeconomic scenario materializes, one might reasonably anticipate heightened tax collection effectiveness. To factor in potential variations in revenue collection performance under each alternative scenario and to accommodate "the overall net effect" of automatic stabilizers, the pessimistic scenario involves subjecting the "ratio of total revenues to GDP" to a negative shock equivalent to one-third of the respective shock (in percentage points) introduced in the "real growth" for each year. In contrast, the optimistic scenario entails an asymmetric positive shock of one-tenth for the respective shock of this variable in the "optimistic" scenario.

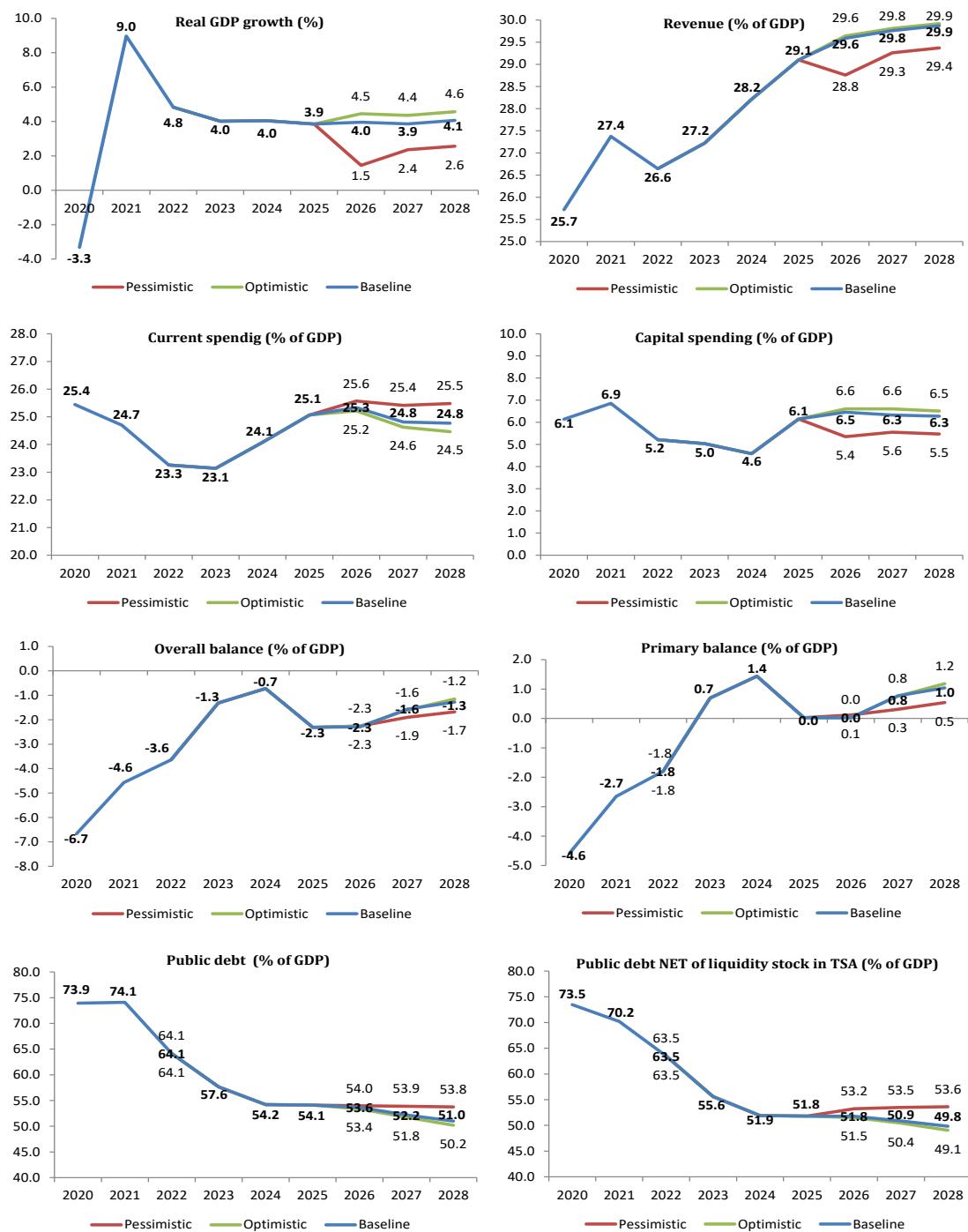
In each alternative scenario, we maintain the same assumption for effective interest rates as in the baseline (defined as interest expenditures in year "t" divided by the debt stock in year "t-1"). However, we factor in adjustments to interest expenditure levels resulting from higher or lower borrowing under each scenario. The presumed nominal exchange rate remains constant across all scenarios. It's important to note that each year's budget incorporates a contingency (legally mandated in the Organic Budget Law) of approximately 0.3 percent of GDP, designed to cover any elevated interest expenses arising from increases in interest rates or exchange rate depreciation.

In adherence to the fiscal rules outlined in the Organic Budget Law (OBL), the overall consolidating fiscal policy is maintained in each macroeconomic scenario. However, the quantitative target for the annual fiscal deficit varies in each scenario, primarily reflecting a countercyclical response to different assumed dynamics of the economic cycle, within the confines of fiscal rule compliance. Generally, there is an expectation of fiscal deficit relaxation in the "pessimistic" scenario and a more robust fiscal consolidation in the "optimistic" scenario. In the "pessimistic" scenario, fiscal policy easing, compared to the "baseline", would be implemented to the extent that key public finance parameters (e.g., debt-to-GDP ratio, primary balance, and current fiscal balance) simultaneously adhere to the fiscal rules in the Organic Budget Law. The necessary spending adjustments to ensure compliance with fiscal rules under the "pessimistic" scenario are made in both "domestically financed capital spending" and "operational and maintenance expenditures". Specifically, the annual average reduction in capital spending during 2026-2028, under the "pessimistic" scenario compared to the "baseline", amounts to ALL 33.5 billion or approximately 0.9 percent of GDP on average each year. In the "pessimistic" scenario, the average annual level of total capital expenditures during 2026-2028 decreases to 5.5 percent of GDP from the planned 6.4 percent of GDP in the "baseline." Operational and maintenance spending during 2026-28 is reduced by an average of ALL 11.7 billion per year compared to the baseline, or an average of 0.3 percent of GDP per year.

In the “optimistic” scenario, capital spendings increase by an annual average of 8.3 billion (or about 0.2 percent of GDP) over 2026-2028 compared to the “baseline”, whereas other discretionary expenditure items (i.e. operational and maintenance spending) in nominal terms are assumed to be identical to the “baseline”. The rest of the additional revenues generated are reflected as a higher overall fiscal balance (resulting in a lower deficit) each year compared to the “baseline” and therefore a steeper downward trajectory of the public debt.

To effectively address all budget and debt service requirements (i.e., financing needs) over the three-year time horizon (including 2028), three financing items, namely “net domestic borrowing”, “change of liquidity stock in TSA”, and “liquidity stock in TSA”, are simultaneously optimized in each alternative scenario, with a particular emphasis on the “pessimistic” one. Meanwhile, “net foreign borrowing”, encompassing both commercial and concessional borrowing, is assumed to be exactly the same as in the “baseline”. The following charts and tables present the main fiscal implications of alternative scenarios.

Chart 4.7.1: Dynamics of main indicators under different scenarios



Source: Ministry of Finance (2025)

Table 4.7.1A: Main revenues and expenditures in each scenario (in billion ALL)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
	Total Revenue								Est.	Proj.	Proj.	Proj.
Baseline	449.9	460.3	425.9	511.0	572.8	643.7	710.3	769.0	823.1	870.6	920.6	
Pessimistic									776.8	816.8	848.9	
Optimistic									828.4	880.4	935.5	
	Total expenditures											
Baseline from which:	476.1	491.9	536.3	596.3	651.0	674.9	728.6	830.1	886.8	916.4	960.0	
Current expenditures from which:	397.3	416.9	421.4	461.1	500.0	547.0	606.3	662.2	704.7	725.8	763.4	
Operational & Maintenance	45.5	47.2	48.9	59.4	68.5	70.5	80.2	80.8	84.9	81.7	82.2	
Interest	36.5	35.1	34.4	35.8	39.6	47.6	54.5	61.7	64.2	68.2	71.3	
Capital expenditures from which:	78.4	75.0	101.7	128.0	112.1	119.1	115.4	162.4	179.6	185.1	193.6	
Domestic financing	52.2	51.5	60.6	72.8	64.6	89.1	89.7	118.3	127.6	119.1	121.8	
Foreign financing	26.2	23.5	24.5	25.7	18.7	13.8	17.4	39.1	47.0	64.5	71.8	
Reconstruction fund			16.6	29.5	28.9	16.2	8.3	5.0	5.0	1.5	0.0	
Pessimistic from which:									837.8	869.9	897.4	
Current expenditures from which:									690.7	709.3	736.3	
Operational & Maintenance									70.9	71.7	71.2	
Interest									64.2	61.7	64.2	
Capital expenditures from which:									144.6	155.1	158.1	
Domestic financing									92.6	89.1	86.3	
Foreign financing									47.0	64.5	71.8	
Reconstruction fund									5.0	1.5	0.0	
Optimistic from which:									891.8	927.8	971.5	
Current expenditures from which:									704.7	727.2	764.9	
Operational & Maintenance									84.9	81.7	82.2	
Interest									64.2	69.7	72.9	
Capital expenditures from which:									184.6	195.1	203.6	
Domestic financing									132.6	129.1	131.8	
Foreign financing									47.0	64.5	71.8	
Reconstruction fund									5.0	1.5	0.0	

Source: Ministry of Finance, December 2025

Table 4.7.1B: Main revenues and expenditures in each scenario (% of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
	Total Revenue								Est.	Proj.	Proj.	Proj.
Baseline	27.1	26.9	25.7	27.4	26.6	27.2	28.2	29.1	29.6	29.8	29.9	
Pessimistic									28.8	29.3	29.4	
Optimistic									29.6	29.8	29.9	
	Total expenditures											
Baseline from which:	28.7	28.7	32.4	31.9	30.3	28.5	28.9	31.4	31.9	31.3	31.1	
Current expenditures from which:	23.9	24.3	25.4	24.7	23.3	23.1	24.1	25.1	25.3	24.8	24.8	
Operational & Maintenance	2.7	2.8	3.0	3.2	3.2	3.0	3.2	3.1	3.1	2.8	2.7	
Interest	2.2	2.1	2.1	1.9	1.8	2.0	2.2	2.3	2.3	2.3	2.3	
Capital expenditures from which:	4.7	4.4	6.1	6.9	5.2	5.0	4.6	6.1	6.5	6.3	6.3	
Domestic financing	3.1	3.0	3.7	3.9	3.0	3.8	3.6	4.5	4.6	4.1	4.0	
Foreign financing	1.6	1.4	1.5	1.4	0.9	0.6	0.7	1.5	1.7	2.2	2.3	
Reconstruction fund				1.0	1.6	1.3	0.7	0.3	0.2	0.2	0.1	0.0
Pessimistic from which:									31.0	31.2	31.1	
Current expenditures from which:									25.6	25.4	25.5	
Operational & Maintenance									2.6	2.6	2.5	
Interest									2.4	2.2	2.2	
Capital expenditures from which:									5.4	5.6	5.5	
Domestic financing									3.4	3.2	3.0	
Foreign financing									1.7	2.3	2.5	
Reconstruction fund									0.2	0.1	0.0	
Optimistic from which:									31.9	31.4	31.1	
Current expenditures from which:									25.2	24.6	24.5	
Operational & Maintenance									3.0	2.8	2.6	
Interest									2.3	2.4	2.3	
Capital expenditures from which:									6.6	6.6	6.5	
Domestic financing									4.7	4.4	4.2	
Foreign financing									1.7	2.2	2.3	
Reconstruction fund									0.2	0.1	0.0	

Source: Ministry of Finance, December 2025

Table 4.7.2A: Main fiscal parameters and financing items in each scenario (in billion ALL)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028
								Est.	Proj.	Proj.	Proj.
Overall balance											
Baseline	-26.2	-31.5	-110.4	-85.3	-78.2	-31.2	-18.2	-61.1	-63.7	-45.8	-39.3
Pessimistic									-61.0	-53.1	-48.5
Optimistic									-63.4	-47.4	-36.0
Finacing of overall balance											
Baseline from which:	26.2	31.5	110.4	85.3	78.2	31.2	18.2	61.1	63.7	45.8	39.3
Net domestic borrowing	19.6	17.8	48.4	48.7	26.2	20.7	49.7	50.0	45.0	30.0	25.0
Change of liquidity stock in TSA	-30.5	16.6	14.7	-72.7	41.5	-41.0	-24.7	-1.8	8.4	13.0	3.6
Net foreign borrowing <i>from which:</i>	33.1	-9.4	60.9	104.0	-9.5	38.5	-15.4	12.9	10.3	2.8	10.7
Earmarked project financing	21.2	20.5	17.2	14.6	11.1	9.7	13.0	23.5	28.3	40.7	45.4
Eurobond	62.5	0.0	80.3	78.5	0.0	61.7	0.0	63.9	0.0	49.2	59.0
Budgetary support from IFIs	0.9	1.6	23.8	42.5	17.1	19.2	12.4	18.7	17.7	9.8	0.0
Repayments	-51.7	-29.8	-61.7	-33.2	-38.4	-53.2	-40.5	-93.8	-36.7	-97.9	-94.7
Other flows	4.1	6.5	-13.7	5.3	20.1	13.1	8.6	0.0	0.0	0.0	0.0
Pessimistic from which:									61.0	53.1	48.5
Net domestic borrowing									11.3	40.3	30.7
Change of liquidity stock in TSA									39.4	10.0	7.1
Net foreign borrowing <i>from which:</i>									10.3	2.8	10.7
Earmarked project financing									28.3	40.7	45.4
Eurobond									0.0	49.2	59.0
Budgetary support from IFIs									17.7	9.8	0.0
Repayments									-36.7	-97.9	-94.7
Other flows									0.0	0.0	0.0
Optimistic from which:									63.4	47.4	36.0
Net domestic borrowing									44.6	31.6	21.6
Change of liquidity stock in TSA									8.4	13.0	3.6
Net foreign borrowing <i>from which:</i>									10.3	2.8	10.7
Earmarked project financing									28.3	40.7	45.4
Eurobond									0.0	49.2	59.0
Budgetary support from IFIs									17.7	9.8	0.0
Repayments									-36.7	-97.9	-94.7
Other flows									0.0	0.0	0.0
Primary balance											
Baseline	10.3	3.6	-76.0	-49.5	-38.6	16.4	36.2	0.6	0.5	22.4	32.0
Pessimistic									3.2	8.6	15.7
Optimistic									0.9	22.3	36.9
Current balance											
Baseline	52.2	43.4	-8.7	42.7	33.9	87.9	97.2	101.4	115.9	139.3	154.2
Pessimistic									83.6	102.0	109.6
Optimistic									121.3	147.7	167.6
Public debt											
Baseline	1,107.3	1,112.6	1,224.5	1,382.9	1,378.6	1,362.8	1,365.0	1,429.5	1,492.2	1,527.2	1,571.5
Pessimistic									1,458.4	1,503.8	1,553.7
Optimistic									1,491.8	1,528.4	1,569.4
Liquidity stock in Treasury Single Account (TSA)											
Baseline	49.4	16.2	7.8	72.6	14.5	48.4	58.4	60.3	51.8	38.8	35.2
Pessimistic									20.8	10.8	3.7
Optimistic									51.8	38.8	35.2
Public debt NET of liquidity stock in TSA											
Baseline	1,057.8	1,096.5	1,216.7	1,310.3	1,364.1	1,314.4	1,306.6	1,369.3	1,440.3	1,488.4	1,536.3
Pessimistic									1,437.6	1,493.0	1,550.0
Optimistic									1,440.0	1,489.6	1,534.1

Source: Ministry of Finance, December 2025

Table 4.7.2B: Main fiscal parameters and financing items in each scenario (% of GDP)

	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
	Overall balance								Est.	Proj.	Proj.	Proj.
Baseline	-1.6	-1.8	-6.7	-4.6	-3.6	-1.3	-0.7	-2.3	-2.3	-1.6	-1.3	
Pessimistic									-2.3	-1.9	-1.7	
Optimistic									-2.3	-1.6	-1.2	
Finacing of overall balance												
Baseline from which:	1.6	1.8	6.7	4.6	3.6	1.3	0.7	2.3	2.3	1.6	1.3	
Net domestic borrowing	1.2	1.0	2.9	2.6	1.2	0.9	2.0	1.9	1.6	1.0	0.8	
Change of liquidity stock in TSA	-1.8	1.0	0.9	-3.9	1.9	-1.7	-1.0	-0.1	0.3	0.4	0.1	
Net foreign borrowing <i>from which:</i>	2.0	-0.5	3.7	5.6	-0.4	1.6	-0.6	0.5	0.4	0.1	0.3	
Earmarked project financing	1.3	1.2	1.0	0.8	0.5	0.4	0.5	0.9	1.0	1.4	1.5	
Eurobond	3.8	0.0	4.8	4.2	0.0	2.6	0.0	2.4	0.0	1.7	1.9	
Budgetary support from IFIs	0.1	0.1	1.4	2.3	0.8	0.8	0.5	0.7	0.6	0.3	0.0	
Repayments	-3.1	-1.7	-3.7	-1.8	-1.8	-2.3	-1.6	-3.5	-1.3	-3.3	-3.1	
Other flows	0.2	0.4	-0.8	0.3	0.9	0.6	0.3	0.0	0.0	0.0	0.0	
Pessimistic from which:									2.3	1.9	1.7	
Net domestic borrowing									0.4	1.4	1.1	
Change of liquidity stock in TSA									1.5	0.4	0.2	
Net foreign borrowing <i>from which:</i>									0.4	0.1	0.4	
Earmarked project financing									1.0	1.5	1.6	
Eurobond									0.0	1.8	2.0	
Budgetary support from IFIs									0.7	0.4	0.0	
Repayments									-1.4	-3.5	-3.3	
Other flows									0.0	0.0	0.0	
Optimistic from which:									2.3	1.6	1.2	
Net domestic borrowing									1.6	1.1	0.7	
Change of liquidity stock in TSA									0.3	0.4	0.1	
Net foreign borrowing <i>from which:</i>									0.4	0.1	0.3	
Earmarked project financing									1.0	1.4	1.5	
Eurobond									0.0	1.7	1.9	
Budgetary support from IFIs									0.6	0.3	0.0	
Repayments									-1.3	-3.3	-3.0	
Other flows									0.0	0.0	0.0	
Primary balance												
Baseline	0.6	0.2	-4.6	-2.7	-1.8	0.7	1.4	0.0	0.0	0.8	1.0	
Pessimistic									0.1	0.3	0.5	
Optimistic									0.0	0.8	1.2	
Current balance												
Baseline	3.1	2.5	-0.5	2.3	1.6	3.7	3.9	3.8	4.2	4.8	5.0	
Pessimistic									3.1	3.7	3.8	
Optimistic									4.3	5.0	5.4	
Public debt												
Baseline	66.7	65.0	73.9	74.1	64.1	57.6	54.2	54.1	53.6	52.2	51.0	
Pessimistic									54.0	53.9	53.8	
Optimistic									53.4	51.8	50.2	
Liquidity stock in Treasury Single Account (TSA)												
Baseline	3.0	0.9	0.5	3.9	0.7	2.0	2.3	2.3	1.9	1.3	1.1	
Pessimistic									0.8	0.4	0.1	
Optimistic									1.9	1.3	1.1	
Public debt NET of liquidity stock in TSA												
Baseline	63.7	64.0	73.5	70.2	63.5	55.6	51.9	51.8	51.8	50.9	49.8	
Pessimistic									53.2	53.5	53.6	
Optimistic									51.5	50.4	49.1	

Source: Ministry of Finance, December 2025

4.8. Quality of public finances

Public finance management in Albania has been under reforming process starting from 2014, with the adoption of the Public Finance Management (PFM) Strategy 2014-2020 and followed by 2019-2022 PFM Strategy. Public finances improvements over years proof the reform progress during these years. The revised PFM Strategy 2019-2022 addressed a number of challenges that our country should tackle in its path towards European Union. PFM Strategy aims at supporting a more developed economy with better services to citizens; it aims at increasing the accountability, efficiency and fiscal discipline in planning and spending public funds. Albania has undertaken a series of reforms to enable a better balanced and sustainable budget with a reduced debt ratio through stronger financial control and management as well as through audit processes, where the implementation of the budget is properly linked to government policies.

Albania has successfully implemented several PFM reforms during the past decades. The PFM Reform Strategy lays out an ambitious reform agenda for all the government. PFM strategy 2023-2030 was approved with DCM no. 390, dated 12.06.2024 and it is published in the Official Gazette. The approved strategy is also published on the MoF website. The new strategy has taken into consideration the developments and progress resulting from the implementation of the PFM strategy 2019-2022 and the relevant reforms carried out, as well as the findings and recommendations of the evaluation reports in the field of public finance, both national and international reports.

The public finance management reform continues to be a priority of the Albanian government not only as one of the preconditions for accession to the EU under public administration reform (PAR), but also aims at supporting a more developed economy with better services to citizens. Satisfactory progress in the implementation of reforms to improve public financial management, including domestic revenue mobilization, and continued relevance and credibility of the reform programme is one of the general conditions for disbursement of budget support tranches under IPA funds, and as well for the Reform Agenda. In this context, the Public Finance Management Strategy 2023-2030, addressed several challenges that Albania is facing in its path towards EU. Furthermore, progress of PFM is part of several monitoring and evaluation reports such as: Public Administration Reform Special Group (PAR SG) report, PAR Roadmap, SIGMA monitoring report, PEFA Assessment, and EU Progress Report for Albania.

The annual progress report of PFM report provides an assessment of the PFM eligibility criteria for the European Union (EU) to provide Budget Support to Albania and as well for the Reform Agenda. The PFM eligibility criterion requires the existence of a credible and relevant programme to improve public financial management as well as satisfactory progress in the implementation of the programme. According to Article 12(3) of Regulation (EU) 2024/1449 of the European Parliament and of the Council on the establishing the Reform and Growth Facility for the Western Balkans, the general conditions for payments that shall be fulfilled for any release of funds under the Reform Agenda are macro-financial stability, sound public financial management, transparency, and oversight of the budget.

The Ministry of Finance has drafted the annual monitoring report for 2024 and semi-annual monitoring report for 2025. 2024 PFM draft monitoring report was discussed at the PFM Technical Committee held on June 20, 2025, and was approved by the PFM Steering Committee on November 11, 2025. PFM Semi-annual monitoring report for 2025 was discussed at the PFM Technical Committee held on October 30, 2025, and was approved by the PFM Steering Committee on November 11, 2025.

To increase the effectiveness of budget spending and create a more productive environment for spending in the medium and long term, continuing PFM reforms is essential.

4.9. Fiscal governance and budgetary frameworks

In alignment with the NSDEI 2022-2030, the overall goal is to establish a public finance management system that ensures transparency, accountability, fiscal discipline and efficiency and equity in the use of public resources for the provision of improved public services and economic development, and which ensures a smooth integration of Albania in the European Union. The Strategy will serve as a framework to guide the implementation of all GoA PFM reforms for the period up to the end of 2030.

This strategy is structured in six pillars, with several components in each pillar, as follows:

- Pillar 1 Macroeconomic programming and Risk Monitoring: The systems for developing and monitoring a sound fiscal policy based on fiscal rules, advanced macroeconomic forecasts and solid fiscal risk management practices are maintained and further improved. A Fiscal Council is established
- Pillar 2 Integrated strategic and budget planning, monitoring, and transparent reporting: An advanced system for integrated strategic planning and medium-term budget planning at all levels of government are in place. The practices for public investment planning are professionalized. Transparent monitoring and reporting and public participation in budget processes in compliance with the relevant standards is ensured.
- Pillar 3 Revenue mobilization and management: Domestic revenue mobilization is increased through developing and implementing advanced tax policies and the systems for tax and customs management are further improved and where applicable aligned to the EU legal requirements. The Medium-Term Revenue Strategy is implemented, regularly updated and tax reforms are adequately managed.
- Pillar 4 Accounting and budget execution management: Budget execution management practices are strengthened, including improvement and increased utilization of the AGFIS, implementation of the International Public Accounting Standards reforms facilitating a transition to accrual accounting. The procurement systems are improved and in particular compliance with procurement legislation is secured. Debt and cash management practices are further enhanced, and asset management systems improved.
- Pillar 5 Public Internal Financial Control: The systems for Public Internal Financial Control are further enhanced in compliance with EU accepted practices for sound financial management. The concept of managerial accountability and delegation of authorities is strengthened and all Financial Management and Control gaps in public institutions are addressed. Added-value internal audits are implemented in all public institutions in accordance with applicable standards. Fraud and irregularity cases are effectively addressed by the public financial inspection and the AFCOS network implements the anti-fraud strategy. Adequate financial management systems are in place to absorb IPA-III and future EU financial support.
- Pillar 6 External Oversight: The independent Supreme Audit function is further professionalized in line with INTOSAI principles and international audit standards and the support function to the parliament is strengthened to enable the Parliamentary Committee for Economy and Finance to adequately implement its oversight role.

4.10. Sustainability of public finances

The implementation of the PFM reform serves as a roadmap for Albania to maintain the sustainability of public finances. The PFM Sectoral Strategy 2023-2030 and action plan for the period 2023-2026 presents a vision of the PFM function by 2030 and an action plan identifying a series of measures and associated activities and performance indicators to continue reforms in PFM systems until 2026. This strategy focuses on improving the PFM systems. In alignment with the National Strategy for Development and European Integration (NSDEI) 2022-2030, the overall goal of the strategy is to establish a public finance management

system that ensures transparency, accountability, fiscal discipline, efficiency and equity in the use of public resources for the provision of improved public services and economic development, and which ensures a smooth integration of Albania in the European Union.

“The Roadmap for Public Administration Reform 2023-2030” is a document that supports the reform in the public administration, with a plan of concrete priority measures, for the time period 2023-2030. The purpose of its drafting is to address the challenges identified within the reform of public administration, as well as the prioritization of measures in this direction, to ensure the fulfilment of standards and progress in the European integration process. The Ministry of Finance/Directorate of PFM follows and reports to the Department of Public Administration the status of the implementation of the priority measures included in the fifth pillar "Management of Public Finances".

2024 PEFA Assessment for Albania started in May 2024. The assessment covered the data for the fiscal years 2021, 2022, 2023. The PEFA Assessment 2024 aim is to provide the Government of Albania with an updated objective diagnosis of the performance of Public Finance Management at the central level based on the PEFA methodology, based on 31 performance indicators. The following were the areas of PFM subject of this assessment: (i) budget planning and executing; (ii) intergovernmental fiscal relations; (iii) performance information for service delivery, (iv) public access to fiscal information; (v) public investment management; (vi) public asset monitoring; (vii) macro-economic forecasts; (viii) debt management, (ix) revenue administration; (x) predictability of in-year resource allocation; (xi) expenditure arrears; (xii) payroll controls and internal controls on non-salary expenditure; (xiii) procurement system; internal and external audit; financial data integrity. This process was managed and supervised by the Government of Albania, the Delegation of the EU, the International Monetary Fund; World Bank, SECO and SIDA. The Ministry of Finance in this process plays the role of coordinator and supporter for the team of independent consultants contracted by EUD. The launch event for the final assessment report of PEFA 2024 for Albania was held on July 15, 2025. The PEFA 2024 report shows significant progress but also highlights areas that require improvement. Some of the strengths are sustainable budget implementation with low deviations, regular budget process, strong internal financial control, good tax administration, effective debt and liquidity management, as well as clear objectives for public services with measurable indicators. Some of the challenges drawn from this report are: improving financial reporting, consolidating financial reports for state-owned enterprises and PPPs, expanding the coverage of IT systems to reduce transactions outside the treasury, including non-financial assets and strengthening parliamentary oversight over audit reports, as well as the establishment of a Fiscal Council as an independent institution that analyzes and evaluates the government's fiscal policy and compliance with fiscal rules, the prudence and reliability of macro-fiscal forecasts, etc. 2024 PEFA report is published on the PEFA website⁶.

⁶ <https://www.pefa.org/node/5333>

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

The Reform Agenda (RA) 2024-2027 represents a transformative policy framework that marks a significant milestone in Albania's economic development trajectory. This comprehensive reform program has been carefully designed to accelerate Albania's economic convergence with the EU while simultaneously supporting the country's path toward EU membership. The agenda represents not merely a collection of individual reforms, but rather an integrated and mutually reinforcing set of policy measures that together aim to fundamentally strengthen the foundations of Albania's economy.

This section provides an in-depth analysis of how the reforms outlined in the RA align with and reinforce the macroeconomic and fiscal objectives presented in this Economic Reform Programme. It is important to note from the outset that the current baseline macroeconomic scenario presented in this ERP adopts a prudent approach and does not yet incorporate the potential positive effects expected from the implementation of this new Growth Plan reform agenda. This methodological choice reflects a commitment to realistic planning while acknowledging the significant upside potential that successful reform implementation could unlock. The reforms encompassed in the RA are particularly significant as they address both immediate challenges facing the Albanian economy and long-term structural constraints that have historically limited growth potential. By tackling these challenges simultaneously and comprehensively, the agenda aims to create powerful synergies that could accelerate economic transformation beyond what individual reforms might achieve in isolation.

The current baseline macroeconomic framework presented in Section 3 projects real GDP growth to average 4.0% annually over 2026-2028. These projections, developed through rigorous analysis and prudent assumptions, primarily reflect the continuation of existing trends and policies. They incorporate standard assessments of domestic and external factors, established patterns of investment and consumption, and the ongoing effects of previously implemented policies. Importantly, these baseline projections have been deliberately formulated with a measured approach that does not yet factor in the additional growth potential that could be unlocked through the successful implementation of the comprehensive Reform Agenda supported by the Reform and Growth Facility. This methodological choice reflects several important considerations. First, it ensures the credibility and reliability of the baseline scenario by building primarily on well-understood and already-observable economic relationships. Second, it acknowledges the inherent complexity of structural reforms, and the time typically required for their full effects to materialize. Third, it provides a stable foundation for policy planning while preserving upside potential from successful reform implementation.

This prudent approach to baseline projections should not be interpreted as diminishing the transformative potential of the Reform Agenda. Rather, it reflects a commitment to realistic planning while acknowledging that the successful implementation of these comprehensive reforms could significantly enhance Albania's growth trajectory beyond the baseline scenario. The reforms' potential to accelerate growth stems from their ability to address fundamental constraints in the economy, create new opportunities for private sector development, and strengthen the institutional foundations for sustainable economic development. The timing and sequencing of reform impacts is particularly important to consider. While some reforms may yield relatively quick benefits through efficiency gains or improved market functioning, others will likely generate their full impact over a longer timeframe as they involve more fundamental changes to economic structures and institutional frameworks. This variation in impact timing reinforces the prudence of not fully incorporating potential reform benefits in the baseline projections while maintaining focus on their successful implementation.

Linkages with the Macroeconomic Framework

The Reform Agenda encompasses an ambitious and meticulously structured set of reforms across five interconnected policy areas that are expected to enhance Albania's growth potential through multiple reinforcing channels. These policy areas - business climate, human capital development, digital transformation, energy transition, and rule of law - have been selected and designed based on careful analysis of Albania's development needs and opportunities, as well as successful reform experiences from other European economies.

The interconnections between these policy areas are particularly noteworthy. Improvements in one area are designed to catalyze and reinforce progress in others, creating virtuous cycles of economic development. For instance, digital transformation initiatives support both business climate improvements and human capital development, while strengthened rule of law underpins all other reform areas by providing the institutional foundation for their success. The analysis below examines in detail how each reform area connects to and supports the macroeconomic framework, while noting that their full impact is likely to extend beyond the current baseline projections. This examination pays particular attention to both the direct effects of reforms and their indirect impacts through behavioral changes, market responses, and institutional development. Understanding these complex interconnections is crucial for appreciating the transformative potential of the Reform Agenda.

Where feasible, the expected economic impact of the key reforms has been assessed, and the results for selected priority measures are presented below. The assessment is based on expert judgement, informed by the objectives and implementation timelines of the reforms, supported by data from official statistical and administrative sources, and complemented by evidence from relevant international studies on the economic effects of comparable reforms. The impact is assessed to generate a material and durable upward shift in the economy's growth path, conditional on the full and timely completion of all reform measures. The estimated impact represents the full potential effect of the reforms, capturing the cumulative gains in productivity, employment and capital formation once reform outcomes are fully realized. The scenario reflects a comprehensive transmission of reform effects across economic channels, if institutional, labour-market and investment-related measures reach their intended objectives. Under these conditions, the reform scenario demonstrates the maximum growth dividend that could be achieved over the medium term, while remaining consistent with macroeconomic stability and long-term fiscal sustainability.

Table 5A.1: Estimated Impact of Reforms on GDP Growth (2026–2028)

Reform / Measure	Shock / Assumption	Impact on Potential GDP (level)	Average Annual Impact on GDP Growth (2026–2028)
Employment reforms	Increase in total employment by 1.3%	≈ +0.85%	≈ +0.28 p.p.
Judicial efficiency reforms	TFP increase of 0.9%	≈ +0.8%	≈ +0.27 p.p.
Energy investments (renewables & efficiency)	EUR 914.1m renewables; EUR 117.8m energy efficiency	Moderate positive impact via capital accumulation and efficiency	≈ +0.1–0.15 p.p.
Export performance improvement	+1 p.p. of GDP export share per year for two years	Positive level effect through external demand	≈ +0.1–0.2 p.p.
Targeted FDI increase	+5% applied to 40% of total FDI inflows	Limited positive spillovers to investment and productivity	≈ +0.05–0.1 p.p.
Total reform package	Combined effect of all reforms	≈ +1.65%	≈ +0.8–1.0 p.p.

The reform package underpinning the alternative reform scenario comprises substantial investments in renewable energy generation amounting to approximately EUR 914.1 million, additional investments of EUR 117.8 million in energy efficiency, a cumulative improvement in export performance equivalent to an increase of one percentage point of GDP per year over two consecutive years, and a targeted increase in foreign direct investment inflows of 5 percent applied to 40 percent of total FDI. In parallel, labour-market reforms are assumed to increase total employment by 1.3 percent relative to the baseline, while reforms aimed at improving judicial efficiency across all levels are expected to strengthen the institutional environment and contribute to an additional 0.9 percent increase in total factor productivity, which the model maps into an increase of approximately 0.8 percent of potential GDP.

Within the Ministry of Finance's Financial Programming framework, the employment reform translates into an increase in potential output of around 0.85 percent through the labour-input channel, while the judicial efficiency reform generates a sizeable productivity-driven expansion of potential output. Taken together, these structural reforms raise the level of potential GDP by approximately 1.65 percent relative to the baseline. When phased in over the 2026–2028 period, this corresponds to an average uplift of around 0.55 percentage points in annual GDP growth.

The remaining reform measures—energy-related investments, improved export performance and increased FDI inflows—provide additional support to economic activity through higher capital accumulation, lower production costs, stronger external demand and limited but positive productivity spillovers, albeit with more gradual effects due to implementation lags and import content.

Overall, the full reform package is assessed to increase medium-term real GDP growth by around 0.8–1.0 percentage points per year above the baseline, implying a reform-scenario growth rate of approximately 4.7–4.9 percent over 2026–2028, under the assumption of full and timely implementation, while preserving macroeconomic stability and avoiding optimistic bias in the projections.

Business Climate Reforms and Economic Growth

The business climate reform pillar of the Reform Agenda aims to fundamentally transform the environment for private sector development in Albania through a carefully sequenced series of interconnected reforms. This comprehensive approach recognizes that sustainable improvements in the business environment require coordinated changes across multiple dimensions of the business- government relationship, regulatory frameworks, and market institutions.

At its core, this pillar focuses on modernizing the relationship between businesses and government, reducing administrative barriers, and creating conditions conducive to increased investment and productivity growth. The reforms in this area are designed to address both immediate operational constraints faced by businesses and deeper structural issues that have historically limited private sector development in Albania.

A centerpiece of these reforms is the implementation of the Medium-Term Revenue Strategy, which represents a fundamental rethinking of tax administration in Albania. This strategy goes well beyond traditional approaches to revenue collection, encompassing a comprehensive transformation of how tax authorities interact with businesses and individuals. The strategy emphasizes digitalization of tax services, process simplification, and enhanced taxpayer services, complemented by improved risk management and enforcement capabilities.

The modernization of tax administration under this strategy is expected to generate multiple beneficial effects. In the immediate term, simplified procedures and improved digital services should reduce compliance costs for businesses, particularly benefiting small and medium-sized enterprises that often face disproportionate administrative burdens. Over time, the combination of better services and enhanced enforcement capabilities should help combat informality by making formal operation more attractive than

remaining in the informal sector. This formalization effect is particularly important for Albania's economic development, as it can help break the cycle of limited productivity and investment that often characterizes economies with large informal sectors.

The reforms aimed at ensuring transparency and efficiency of cadastral services represent another crucial and far-reaching element for improving the business environment. These reforms address one of the fundamental prerequisites for market development - clear and secure property rights. The improvements in property registration systems go beyond technical modernization to encompass fundamental changes in how property rights are documented, protected, and transferred.

The significance of the cadastral reforms extends across multiple dimensions of economic activity. Clear property rights and efficient registration systems reduce transaction costs in property markets, enabling more efficient allocation of land and real estate resources. They provide the foundation for using property as collateral, potentially expanding access to finance, particularly for small and medium-sized enterprises. Perhaps most importantly, they create the certainty needed for long-term investment decisions, both domestic and foreign.

The investment framework reforms, particularly those targeting foreign direct investment attraction, represent a sophisticated approach to positioning Albania as a more competitive destination for international capital. These reforms encompass not only streamlined procedures and enhanced investor protections but also fundamental improvements in investment promotion and aftercare services. The reforms recognize that successful investment attraction requires both removing barriers to investment and proactively facilitating new investment opportunities. These measures aim to attract more FDI in productive sectors (tourism, manufacturing and agriculture). For the past 4 years, these sectors have been contributing to around 41.6% of FDI, and the economic impact is calculated by assuming an additional 5% increase of FDI inflows in these sectors on top of the baseline projections for years 2027 and 2028. These additional inflows in FDI are used as an exogenous shock to the baseline scenario in the macroeconomic model.

The investment promotion reforms are complemented by sophisticated improvements in trade facilitation and logistics. The deployment of e-freight systems and Intelligent Transport Systems represents a fundamental modernization of trade-related infrastructure that goes well beyond traditional physical infrastructure improvements. These digital solutions aim to transform how goods move across borders and within the country, introducing new levels of efficiency and reliability to logistics operations.

The implementation of e-freight systems will revolutionize documentation and customs procedures, reducing both time and cost burdens for traders. This digital transformation of trade procedures will particularly benefit small and medium-sized enterprises, which often lack the resources to navigate complex paper-based systems. The introduction of Intelligent Transport Systems will optimize traffic flows and enhance supply chain reliability, creating positive spillover effects across the entire economy. When combined with targeted export promotion measures and support for enterprise internationalization, these trade facilitation reforms should significantly enhance Albania's export competitiveness. The reforms recognize that successful export growth requires both reducing trade costs and actively supporting businesses in accessing international markets. The export promotion program includes sophisticated market intelligence services, targeted support for potential exporters, and assistance in meeting international standards and certifications. The export promotion related reform is expected to increase total exports to GDP ratio by 1 percentage point. This shock is added as an exogenous shock to the baseline macroeconomic scenario for years 2027 and 2028.

The business climate reforms are carefully designed to create both immediate efficiency gains and longer-term structural improvements in market functioning. The immediate effects will come through reduced compliance costs, faster administrative procedures, and improved government services. The longer-term

impacts will emerge through enhanced competition, knowledge spillovers, and demonstration effects as more efficient and innovative business practices spread through the economy. Particularly noteworthy is the potential for these reforms to create virtuous cycles of improvement. For example, better property rights protection encourages investment, which drives demand for improved government services, which in turn supports further investment. Similarly, improved trade facilitation attracts export-oriented investment, which creates demand for better logistics services, which then supports further export growth.

The reforms also recognize the importance of regional economic integration and the opportunities presented by closer ties with EU markets. The alignment of procedures and standards with EU practices will facilitate deeper integration into European value chains, while improved logistics connectivity will strengthen Albania's position as a regional trade hub.

Implementation of these business climate reforms will be carefully sequenced to maximize their effectiveness and manage transition costs. Initial focus will be on foundational reforms in areas like property rights and basic business services, followed by more complex reforms in areas like investment promotion and trade facilitation. This sequencing recognizes the need to build institutional capacity and market readiness for more sophisticated reforms.

Human Capital Development and Labor Market Transformation

The human capital development pillar of the Reform Agenda represents a comprehensive and ambitious approach to transforming Albania's human capital base. This transformation is crucial for long-term economic development as it addresses one of the fundamental determinants of productivity growth and economic convergence with EU levels. The reforms in this area have been carefully designed to create a dynamic and responsive system for human capital development that can adapt to evolving economic needs while ensuring inclusive access to opportunities.

A cornerstone of this pillar is the comprehensive revision of the Vocational Education and Training (VET) system. This reform goes far beyond traditional approaches to VET modernization, representing a fundamental rethinking of how vocational education can serve both economic and social development goals. The establishment of Sector Skills Committees brings together education providers, employers, and policymakers in a structured dialogue about skill needs and training approaches. This institutional innovation ensures that training programs remain relevant to market needs while providing clear pathways for career development.

The reform's emphasis on practical training and work-based learning represents a significant shift in educational methodology. By integrating theoretical knowledge with practical experience, the reformed VET system will better prepare students for real-world work environments. This approach is particularly important for emerging sectors where theoretical knowledge must be complemented by hands-on experience with current technologies and work practices.

The establishment of partnerships between educational institutions and private sector employers represents another crucial innovation in the VET reform. These partnerships go beyond traditional internship programs to encompass curriculum development, teacher training, and shared facilities. This deep collaboration ensures that training programs remain current with industry needs while providing employers with direct input into skill development.

Complementing the VET reforms is a comprehensive updating of primary and secondary education curricula. This curricular reform recognizes that foundational skills are crucial for long-term adaptability in a rapidly changing economy. The new curricula emphasize critical thinking, problem-solving, and digital literacy alongside traditional academic subjects. This balanced approach aims to develop both immediate job-relevant skills and the capacity for lifelong learning.

The incorporation of digital skills throughout the education system represents a particularly forward-looking aspect of the reforms. The program combines infrastructure investments in school connectivity and smart labs with teacher training and curriculum updates. This comprehensive approach ensures that digital skills development is supported by appropriate infrastructure while being integrated into broader learning objectives.

Teacher professional development receives special attention within the reform package. The program includes both initial teacher training and continuous professional development, recognizing that teacher quality is crucial for educational outcomes. The training programs are designed to help teachers incorporate new teaching methodologies, digital tools, and industry-relevant content into their teaching practice.

The reform of curricula, the introduction of certification for informal and non-formal learning, and the closer alignment of the VET system with labor market needs are expected to significantly enhance the employability of VET graduates. It is anticipated that approximately 50% of VET graduates will secure employment within six months of completing their studies. During the implementation of the Reform Agenda, this improvement is estimated to generate nearly 1,000 new jobs and increase employment among individuals aged 15–29 by around 0.5%. Furthermore, the digital skills certification program is expected to support the creation of an additional 1,500 high-quality jobs in the ICT sector and digital services.

The reforms in employment policy and active labor market measures have been carefully designed to complement the educational reforms. These measures take a differentiated approach to addressing the needs of various groups, including youth entering the labor market, long-term unemployed individuals seeking to return to work, and employed workers needing to upgrade their skills. The strengthening of employment services includes both technological modernization and enhanced service delivery models. Digital platforms will improve job matching and skills assessment, while personalized counseling services will help jobseekers navigate career transitions. Special attention is paid to supporting the school-to-work transition for young people and facilitating the reintegration of long-term unemployed individuals into the labor market. It is expected that this reform, based on employment rates monitored by the National Employment Agency, will generate approximately 13,852 additional jobs over the implementation period—8,852 in 2026 and a further 5,000 in 2027.

The research and innovation capacity building measures represent a crucial investment in Albania's long-term innovation potential. The implementation of the Smart Specialization Strategy provides a framework for focusing research and innovation investments in areas where Albania has competitive advantages or development potential. This targeted approach helps ensure that research investments contribute to economic development while building connections between academia and industry. Innovation ecosystem development receives particular attention within the reform package. Support for technology transfer offices, innovation hubs, and research commercialization helps bridge the gap between research and market application. These institutional innovations are crucial for translating research outputs into economic benefits. The reform package also addresses the governance of the research and innovation system. Improved funding mechanisms, enhanced quality assurance systems, and better coordination between different actors in the innovation system will help ensure more effective use of resources and better alignment with economic development needs.

With implementation of RDI reforms, Albania would become on par with the countries currently classified as moderate innovators by the EIS. Achieving this target would increase the GDP growth rate by around 0.35 percentage points as a potential additional impact and create around 8,000 new jobs in innovative SMEs. Considering that RDI is a specific type of investment, with higher multipliers, it is not included as an exogenous shock in the macroeconomic model but is rather based on literature studies that provide estimates about its effect on GDP growth.

Digital Transformation and Economic Modernization

The digital transition pillar of the Reform Agenda represents a fundamental and cross-cutting transformation that aims to revolutionize how technology is integrated into Albania's economy and society. This comprehensive approach to digital transformation recognizes that digitalization is not merely about implementing new technologies, but rather about fundamentally reshaping economic and social interactions to create new opportunities for growth and development.

The implementation of Digital Identity regulation and e-Wallet systems stands as a foundational element of this digital transformation. This reform goes far beyond simple technical implementation to establish a new paradigm for digital interaction between citizens, businesses, and government. The alignment with the EU's eIDAS 2 regulation ensures that Albania's digital identity framework will be fully compatible with European standards, facilitating cross-border digital transactions and services. The digital identity system has been carefully designed to address multiple objectives simultaneously. At the most immediate level, it will provide secure and universally recognized digital identities that can be used across a wide range of services. More fundamentally, it creates the trust infrastructure necessary for the broader digital economy, enabling everything from e-government services to private sector digital innovations. The integration with the EU's digital identity framework will position Albanian businesses and citizens to participate fully in the European digital single market. Particular attention has been paid to ensuring that the digital identity system is both inclusive and secure. The implementation plan includes measures to ensure accessibility for all population groups, including those in rural areas or with limited digital literacy.

At the same time, robust security measures and privacy protections have been incorporated to build and maintain public trust in the system. The updating of cybersecurity frameworks represents another crucial dimension of the digital transformation agenda. The alignment with the NIS2 Directive goes beyond mere regulatory compliance to establish a comprehensive approach to digital resilience. This includes not only technical security measures but also institutional capacity building and cross-border cooperation mechanisms. The cybersecurity reforms recognize that digital security is increasingly a prerequisite for economic development in the modern economy. The framework addresses both immediate security needs and emerging challenges, with particular attention to critical infrastructure protection and supply chain security. The establishment of sectoral cybersecurity requirements and incident reporting mechanisms will help build systematic resilience across the economy.

The improvements to digital infrastructure combine both physical and regulatory elements to create the foundation for a modern digital economy. The broadband infrastructure development program takes a comprehensive approach to ensuring high-speed connectivity across the country. This includes not only urban areas but also targeted measures to address the digital divide in rural and remote regions. The regulatory framework for digital infrastructure has been carefully designed to encourage private investment while ensuring public interest objectives are met. This includes measures to facilitate infrastructure sharing, streamline permit processes, and ensure fair competition in digital markets. The framework also includes provisions for addressing market failures in areas where private investment alone may be insufficient. Support for innovative businesses in digital transition represents a sophisticated approach to stimulating digital adoption across the economy. The program includes both supply-side measures to support technology development and demand-side initiatives to encourage digital adoption by traditional businesses. This balanced approach recognizes that successful digital transformation requires both the availability of digital solutions and the capacity to implement them effectively.

The digital skills development component of the program takes a lifecycle approach, recognizing that digital skills need to be continuously updated throughout careers. This includes both basic digital literacy programs and advanced technical training, with particular attention to emerging technologies and their applications in different sectors.

Special attention has been paid to the needs of small and medium-sized enterprises in the digital transformation process. The program includes targeted support measures to help SMEs assess their digital needs, implement appropriate solutions, and develop the necessary skills within their workforce. This support is crucial for ensuring that digitalization benefits all segments of the economy, not just large enterprises. The support for digital transformation of SMES is complementary to the reform of the RDI system and will reinforce the impact of this reform.

The reform package also addresses the regulatory framework for emerging digital technologies and business models. This forward-looking approach aims to create an enabling environment for innovation while ensuring appropriate safeguards for consumers and society. The framework includes provisions for areas such as artificial intelligence, cloud computing, and digital platforms, aligned with evolving EU standards in these areas.

Energy Transition and Market Integration

The energy transition pillar of the Reform Agenda represents a comprehensive transformation of Albania's energy sector that goes well beyond traditional infrastructure improvements. This pillar addresses both immediate challenges in energy market functioning and long-term sustainability objectives, while carefully balancing the needs for market efficiency, energy security, and social protection.

The alignment with the EU electricity integration package constitutes a fundamental reshaping of Albania's electricity market structure and operations. This reform encompasses multiple interconnected elements that together will create a modern, efficient, and integrated energy market. The implementation extends from basic market rules and institutions to sophisticated mechanisms for cross-border trading and system operation.

The establishment of the intraday electricity market represents a particularly significant innovation in Albania's energy sector. This market will enable more efficient matching of supply and demand in near-real-time, crucial for managing the increasing share of variable renewable energy sources. The reform includes not just the technical systems for market operation but also the development of necessary skills and institutional capacity among market participants.

Market coupling with neighboring countries and ultimately with the EU represents another crucial dimension of the electricity market reforms. This integration will enhance energy security through improved access to regional resources while also providing Albanian generators with broader market opportunities. The careful sequencing of coupling steps ensures that domestic market participants can gradually adapt to increased regional competition.

The approach to tariff reform demonstrates particular attention to balancing market efficiency with social protection considerations. The gradual adjustment of tariffs toward market-based levels is carefully designed to provide appropriate price signals while protecting vulnerable consumers. The complementary program to address energy poverty represents a sophisticated approach to ensuring that energy transition benefits all segments of society. The impact of this reform is mainly fiscal in the medium term, including subsidies for vulnerable groups. The energy poverty measures go beyond simple subsidies to encompass energy efficiency improvements and support for distributed renewable energy solutions. This comprehensive approach aims to address the root causes of energy poverty while supporting broader energy transition objectives. The program includes targeted support for building renovations, efficient appliances, and small-scale renewable installations for vulnerable households.

The renewable energy development program represents another cornerstone of the energy transition strategy. The establishment of a transparent and competitive auction system for renewable energy capacity demonstrates a sophisticated approach to market development. This system will provide clear signals for investment while ensuring cost-effectiveness through competitive price discovery. The quantity-based

auction plan for renewable energy shows careful attention to market absorption capacity and system integration challenges. The planned addition of at least 600 MW of new renewable capacity has been calibrated to match grid development and market maturity. The economic impact of this reform for the medium term is primarily focused on the investment needs to generate the target capacities (600 MW). To reach this target of additional investments in solar and wind generation capacities, private investment of around 914 million Euros is needed. The investment estimates are generated using International Renewable Energy Agency (IRENA)⁷ costs for renewable investment. This additional investment is planned to take place in year 2026 and 2027 and is inserted as an exogenous shock in the baseline macroeconomic scenario.

The sequencing of auctions allows for learning and adjustment of procedures based on experience. The implementation of the Renewable Energy Directive goes beyond simple regulatory alignment to establish a comprehensive framework for sustainable energy development. The reforms address crucial areas such as sustainability criteria for biofuels, streamlined permitting procedures, and support for energy communities. These measures create an enabling environment for diverse forms of renewable energy development. The establishment of a serviceable guarantee of origin system represents an important market innovation. This system will enable proper valuation of renewable energy attributes and facilitate participation in European renewable energy markets. The careful design of this system ensures compatibility with EU standards while being adapted to local market conditions.

The energy efficiency reforms demonstrate particular attention to implementation challenges and market development needs. The long-term building renovation strategy combines ambitious goals with practical implementation measures. The earmarking of necessary financing demonstrates commitment to achieving the 3% annual renovation goal for government buildings. Based on the National Plan for Building Renovation⁸, to reach this target investments of around 117 million euros will take place in the medium term to renovate public buildings. This additional investment is used as an exogenous shock in public investments. The reforms in energy efficiency standards and labeling show careful attention to market readiness and enforcement capacity. The alignment with EU regulations for products such as solid fuel heaters is complemented by development of market surveillance capabilities. This ensures that regulatory requirements can be effectively implemented and enforced. The establishment of an energy efficiency obligation scheme represents a sophisticated approach to driving energy efficiency improvements across the economy. This market- based mechanism creates incentives for energy suppliers to support efficiency improvements among their customers. The careful design of measurement and verification systems ensures that energy savings can be properly documented and credited.

Rule of Law and Institutional Quality

The rule of law reforms represents fundamental improvements to the institutional framework that supports economic activity. While their economic impacts are often indirect, they are crucial for sustainable long-term growth.

Reform nr. 5.4.2. enhance judicial efficiency at all levels seeks to ensure full automation and transparency in case management within courts and public prosecutor's offices by eliminating manual case distribution through the complete use of e-Albania and full interoperability across state databases and reduces paper-based procedures, administrative fees, and inefficiencies. In order to calculate the impact on the economy, it is foreseen that the achievements of the reform targets (reducing backlog, improving disposition time and enforcement costs, will contribute to additional 0.9% in Total Factor Productivity. This TFP shock is

7^{<https://www.irena.org/Publications/2025/Jul/Renewable-energy-statistics-2025>}

8^{https://konsultimipublik.gov.al/documents/RENJK_886_Plan-Komb-tar-p-r-Rinovimin-e-Nd-rtesave_.pdf}

used in a production function for Albania and its impact on GDP is around 0.8% of potential GDP.

The strengthening of anti-corruption measures and enhancement of judicial efficiency should reduce transaction costs and improve business confidence. These reforms should particularly benefit small and medium enterprises, which often lack the resources to navigate complex institutional environments. The improvements in property rights protection and contract enforcement should support investment and market development. These institutional reforms are particularly important for attracting high-quality foreign investment and supporting the development of more sophisticated financial markets.

Fiscal Framework Implications

The implementation of the Reform Agenda has profound implications for Albania's fiscal framework, affecting both revenue and expenditure dimensions while supporting the overarching objectives of fiscal consolidation and debt sustainability. The fiscal implications have been carefully analyzed to ensure that reform implementation strengthens rather than compromises fiscal stability.

Revenue Dimensions and budget financing sources

The Reform Agenda affects government revenues through multiple sophisticated and interconnected channels. The direct channel comes through the support provided by the Reform and Growth Facility, which brings a transformative combination of grants and concessional loans over the 2024-2027 period. This support not only provides crucial fiscal space for reform implementation but also demonstrates strong international confidence in Albania's reform program.

The improvements in tax administration through the Medium-Term Revenue Strategy represent a fundamental modernization of revenue collection capabilities. This goes far beyond simple digitalization to encompass sophisticated risk management systems, enhanced taxpayer services, and improved compliance monitoring capabilities. The strategy's implementation should lead to sustained improvements in revenue performance through multiple channels. The enhanced effectiveness of tax administration is expected to manifest through several mechanisms. Improved digital services and simplified procedures will reduce compliance costs, making it easier for businesses to meet their tax obligations. Enhanced data analytics capabilities will enable more effective identification of non-compliance risks. Improved taxpayer services will support voluntary compliance while more effective enforcement capabilities will address deliberate non-compliance.

The formalization effects of various reforms represent another crucial channel for revenue enhancement. The combined impact of simplified procedures, improved government services, and enhanced enforcement capabilities should gradually shift the balance of incentives toward formal operation. This structural transformation should lead to sustained expansion of the tax base without requiring changes in tax rates.

The growth effects of reforms should generate additional revenues through multiple sophisticated channels. Enhanced investment should expand the corporate income tax base while also generating additional employment and thus personal income tax revenues. Improved productivity should support wage growth, further expanding income tax revenues. Enhanced economic activity should boost consumption and thus VAT revenues, while improved trade facilitation should support customs revenues.

Expenditure Dimensions

The implementation of the Reform Agenda requires carefully planned public investments and operational expenditures across multiple areas. The digital transformation reforms demand sophisticated investments in infrastructure, systems development, and capacity building. These investments have been carefully sequenced to ensure effective absorption and maximize their impact.

The human capital reforms necessitate substantial investments in education infrastructure, teacher training, and curriculum development. These investments have been designed with careful attention to

implementation capacity and the need to maintain high quality standards. The focus on efficiency in implementation helps ensure value for money in these crucial investments.

The energy transition involves particularly significant investments in infrastructure and efficiency improvements. These investments have been carefully prioritized based on their expected returns and contribution to energy security objectives. The investment needs to complete the targets of the National Building Renovation Plan, include around 117 million Euros of renovation costs. Whereas for the other energy reforms, the use of market mechanisms like competitive auctions helps ensure cost-effectiveness in renewable energy development without putting a burden on the state budget.

However, the reforms are also expected to generate substantial efficiency gains and savings over time. The digitalization of public services should significantly reduce administrative costs while improving service quality. Energy efficiency investments in public buildings should generate sustained reductions in utility costs. Improved public investment management should enhance the productivity of capital spending across all areas.

Implementation and Monitoring Framework

The fiscal implications of the Reform Agenda will be carefully monitored through a sophisticated framework that tracks both costs and benefits. This monitoring system goes beyond simple budget tracking to encompass broader economic and social impacts. Regular reviews will enable timely adjustments to implementation while maintaining fiscal discipline.

The careful sequencing of reforms helps manage their fiscal implications while maximizing their effectiveness. Initial investments in foundational reforms like digital infrastructure and basic government services create the platform for more sophisticated reforms. This sequencing helps manage implementation risks while building capacity for more complex reforms.

Fiscal Sustainability

The overall fiscal impact of Reform Agenda implementation has been carefully calibrated to support rather than compromise fiscal sustainability objectives. Several sophisticated mechanisms support this assessment.

The Reform and Growth Facility provides crucial support through a well-designed combination of grants and highly concessional loans. This financing structure helps manage the debt impact of reform implementation while providing the necessary resources for transformative investments.

Many reforms are expected to generate efficiency gains and savings that will partially offset their implementation costs. The careful sequencing of reforms allows for the benefits of earlier reforms to help finance subsequent measures. This self-reinforcing dynamic supports the fiscal sustainability of the overall reform program.

The improved growth potential from reforms should enhance fiscal sustainability by expanding the revenue base and improving debt service capacity. While these effects are not fully captured in the current prudent baseline projections, they represent important upside potential for fiscal performance. The reforms in public financial management and revenue administration should enhance the government's ability to maintain fiscal discipline while implementing the broader reform agenda. These institutional improvements support sustainable implementation of the reform program.

Net Fiscal Impact and Sustainability

The overall fiscal impact of the Reform Agenda implementation is expected to be fully manageable within the medium-term fiscal framework while supporting the achievement of fiscal policy objectives. Several factors support this assessment:

First, the Reform and Growth Facility provides significant support through grants and highly concessional loans, reducing the burden on domestic resources. The combination of grants and concessional financing ensures that the reform implementation does not compromise debt sustainability objectives.

Second, many of the reforms are expected to generate efficiency gains and savings that will partially offset their implementation costs. The sequencing of reforms also allows for the benefits of earlier reforms to help finance subsequent measures.

Third, the improved growth potential from the reforms should enhance fiscal sustainability by expanding the revenue base and improving debt service capacity. While these effects are not fully captured in the baseline projections, they represent important upside potential for fiscal performance.

Fourth, the reforms in public financial management and revenue administration should enhance the government's ability to maintain fiscal discipline while implementing the reform agenda.

Integration with Macro-Fiscal Programming

The Reform Agenda's measures have been carefully considered in the context of the medium-term macro-fiscal framework presented in sections 3 and 4, although their full potential impact is not yet incorporated into the baseline projections. This measured approach to macro-fiscal programming ensures the credibility of the framework while acknowledging significant upside potential from successful reform implementation.

The projected GDP growth rates of 3.9% annually over 2026-2028 in the baseline scenario represent a prudent assessment based on current trends and policies. The reforms discussed above are included in an upside scenario (RA scenario) and the total estimated increase in medium-term GDP growth of is around 0.8–1.0 percentage points per year above the baseline.

Overall, the reform package is assessed to place the economy on a higher and more resilient growth trajectory, under the assumption of full and effective implementation of all reform measures. The estimated impact reflects the maximum potential effect of the reforms once fully completed, operating primarily through sustained improvements in productivity, employment and capital formation rather than short-term demand stimulus. While the modelling assumes full achievement of reform objectives, the transmission of effects remains gradual and internally consistent across reform channels. As such, the reform scenario illustrates the upper-bound growth gains that could be realized over the medium term, while remaining compatible with macroeconomic stability and fiscal sustainability.

6. INSTITUTIONAL ISSUES AND STAKEHOLDER INVOLVEMENT

The Economic Reform Programme (ERP) 2026-2028 cycle was officially launched by the European Commission on May 2024.

The drafting and preparation of the Economic Reform Programme (ERP) 2026-2028 was coordinated by the Ministry of Finance with contributions from various departments within the ministry and the Bank of Albania.

The Order of the Prime Minister No. 107 dated 6.8.2019, defines the framework for the coordination of the ERP process at the national level and appoints the Minister of Finance with the function of National ERP Coordinator. The Ministry of Finance leads the coordination process institutionally with the respective departments within the ministry taking over leadership for drafting and preparing specific chapters, as well as the overall coordination of the process.

The Council of Ministers approved the Economic Reform Programme 2026-2028 during January 2026. The ERP 2026 (-2028) was officially transmitted to the European Commission within 15 January 2026. The Economic Reform Program (ERP) document 2026–2028 was shared in the electronic public consultation register.

7. ANNEX

Annex I

Table 1a: Macroeconomic prospects

Percentages, unless otherwise indicated	ESA Code	Year 2024	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
		Level (bn EUR)	Rate of change				
1. Real GDP at market prices	B1*g	24.4	4.0	3.9	4.0	3.9	4.1
2. Current GDP at market prices	B1*g	25.0	6.5	5.0	5.3	5.2	5.4
Components of real GDP							
3. Private consumption expenditure	P3	17.0	3.7	2.0	3.0	3.6	2.7
4. Government consumption expenditure	P3	3.0	6.0	12.2	0.6	-2.9	1.7
5. Gross fixed capital formation	P51	6.0	5.8	5.6	7.9	5.7	6.3
6. Changes in inventories and net acquisition of valuables (% of GDP)	P52+P53	0.3	1.0	0.3	0.2	0.1	0.1
7. Exports of goods and services	P6	9.0	0.1	5.6	4.3	4.8	5.0
8. Imports of goods and services	P7	10.9	6.0	5.1	3.5	2.9	3.2
Contribution to real GDP growth							
9. Final domestic demand		26.1	4.7	4.2	4.0	3.5	3.7
10. Change in inventories and net acquisition of valuables	P52+P53	0.3	1.9	-0.2	-0.1	-0.1	0.0
11. External balance of goods/services	B11	-1.9	-2.6	-0.2	0.1	0.5	0.4

Table 1b: Price developments

Percentage changes, annual averages	ESA Code	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
1. GDP deflator		2.4	1.1	1.3	1.3	1.3
2. Private consumption deflator		2.1	0.7	2.5	1.7	1.9
3. HICP		2.2	2.3	3.0	3.0	3.0
4. National CPI change		2.2	2.3	3.0	3.0	3.0
5. Public consumption deflator		3.0	3.0	3.0	3.0	3.0
6. Investment deflator		0.9	0.5	0.5	0.5	0.5
7. Export price deflator (goods & services)		0.5	1.7	0.5	0.8	0.7
8. Import price deflator (goods & services)		-1.3	1.4	2.5	1.6	1.7

Table 1c: Labour markets developments

	ESA Code	Year 2024	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
		Level	Level/Rate of change				
1. Population (thousands)			2394.6	2386.1	2376.7	2366.1	2355.9
2. Population (growth rate in %)		2394.6	-0.3	-0.4	-0.4	-0.4	-0.4
3. Working-age population (persons) ⁹		1542.6	1542.6	1534.7	1526.3	1517.1	1508.2
4. Participation rate			75.7	76.0	76.3	76.6	76.9
5. Employment, persons ¹⁰		1057.4	1057.4	1058.4	1059.0	1059.2	1060.5
6. Employment, hours worked ¹¹			:	:	:	:	:
7. Employment (growth rate in %)			-1.6	0.1	0.1	0.0	0.1
8. Public sector employment (persons)		182.4	182.4	182.4	182.4	182.4	182.4
9. Public sector employment (growth in %)			0.4	0.0	0.0	0.0	0.0
10. Unemployment rate ¹²			9.4	9.2	9.0	8.8	8.5
11. Labour productivity, persons ¹³			5.7	3.8	3.9	3.8	3.9
12. Labour productivity, hours worked ¹⁴			:	:	:	:	:
13. Compensation of employees	D1	:	:	:	:	:	:

Table 1d: Sectoral balances

Percentages of GDP	ESA Code	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
1. Net lending/borrowing vis-à-vis the rest of the world	B.9	-2.4	-2.2	-3.5	-3.3	-3.2
of which:						
- Balance of goods and services		-6.9	-6.7	-7.2	-6.8	-6.5
- Balance of primary incomes and transfers		5.1	4.4	3.8	3.6	3.4
- Capital account		-0.6	0.1	-0.1	-0.1	-0.1
2. Net lending/borrowing of the private sector ¹⁵	B.9/ EDP B.9	-1.1	0.0	-1.1	-1.6	-1.8
3. Net lending/borrowing of general government		-0.7	-2.3	-2.3	-1.6	-1.3
4. Statistical discrepancy		0.0	0.0	0.0	0.0	0.0

⁹ Age group of 15-64 years¹⁰ Occupied population, domestic concept national accounts definition¹¹ National accounts definition¹² Harmonised definition, Eurostat; levels¹³ Real GDP per person employed¹⁴ Real GDP per hour worked¹⁵ Calculated as residual from current account minus GG net lending/borrowing

Table 1e: GDP, investment, and gross value added.

	ESA Code	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
GDP and investment						
GDP level at current market prices (in domestic currency)	B1g	2,517.8	2,642.5	2,781.4	2,925.0	3,081.9
Investment ratio (% of GDP)		24.4	24.6	25.4	25.6	26.0
Growth of Gross Value Added, percentage changes at constant prices						
1. Agriculture						
2. Industry (excluding construction)						
3. Construction						
4. Services						

Table 1f: External sector developments

Billion Euro, unless otherwise indicated		Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
1. Current account balance (% of GDP)	% of GDP	-2.4	-2.2	-3.5	-3.3	-3.2
2. Export of goods	bn EUR	1.7	2.0	2.1	2.3	2.4
3. Import of goods	bn EUR	7.3	7.9	8.4	8.8	9.3
4. Trade balance	bn EUR	-5.6	-5.9	-6.3	-6.6	-6.9
5. Export of services	bn EUR	7.4	8.0	8.3	8.8	9.3
6. Import of services	bn EUR	3.5	3.9	4.0	4.2	4.4
7. Service balance	bn EUR	3.9	4.1	4.3	4.5	4.8
8. Net interest payments from abroad	bn EUR	-0.8	-0.9	-1.0	-1.0	-1.1
9. Other net factor income from abroad	bn EUR	0.6	0.7	0.6	0.7	0.7
10. Current transfers	bn EUR	1.3	1.4	1.4	1.4	1.4
11. Of which from EU	bn EUR	:	:	:	:	:
12. Current account balance	bn EUR	-0.6	-0.6	-1.0	-1.0	-1.0
13. Capital and financial account	bn EUR	0.7	1.3	1.2	1.1	1.3
14. Foreign direct investment	bn EUR	1.3	1.4	1.5	1.5	1.7
15. Foreign reserves	bn EUR	0.3	0.8	0.4	0.3	0.4
16. Foreign debt	bn EUR	:	:	:	:	:
17. Of which: public	bn EUR	5.9	6.0	6.2	6.2	6.4
18. O/w: foreign currency denominated	bn EUR	:	:	:	:	:
19. O/w: repayments due	bn EUR	:	:	:	:	:
20. Exchange rate vis-à-vis EUR (annual average)	NCU/EUR	100.7	98.3	98.3	98.3	98.3
p.m. Exchange rate vis-à-vis EUR (annual average)	%, year-on-year	-7.4	-2.3	0.0	0.0	0.0
21. Exchange rate vis-à-vis EUR (end-year)	NCU/EUR	:	:	:	:	:
p.m. Exchange rate vis-à-vis EUR (end-year)	%, year-on-year	:	:	:	:	:

Table 1g: Sustainability indicators

	Dimension	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
1. Current Account Balance	% of GDP	-7.7	-5.9	-1.2	-2.4	-2.2
2. Net International Investment Position	% of GDP	-49.2	-49.3	-44.1	-41.9	-38.6
3. Export market shares	%, y-o-y	36.8	13.7	29.7	4.7	:
4. Real Effective Exchange Rate	%, y-o-y	-2.2	-1.7	-9.2	-6.9	-3.3
5. Nominal Unit Labour Costs	%, y-o-y	:	:	:	:	:
6. Private sector credit flow	% of GDP	2.3	2.5	2.3	3.7	3.4
7. Private sector debt	% of GDP	54.5	52.1	44.1	44.6	44.7
8. General Government Debt	% of GDP	74.1	64.1	63.1	60.7	59.5

Table 2a: General government budgetary prospects

	ESA Code	Year 2024	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
		Level (bn NCU)	% of GDP				
Net lending (B9) by sub-sectors							
1. General government	S13	-18.24	-0.7	-2.3	-2.3	-1.6	-1.3
2. Central government	S1311	92.07	3.7	2.2	2.6	3.1	3.4
3. State government	S1312	:	:	:	:	:	:
4. Local government	S1313	-28.51	-1.1	-1.3	-1.7	-1.8	-1.7
5. Social security funds	S1314	-81.81	-3.2	-3.3	-3.3	-2.9	-2.9
General government (S13)							
6. Total revenue	TR	710.33	28.2	29.1	29.6	29.8	29.9
7. Total expenditure ¹⁶	TE	728.57	28.9	31.4	31.9	31.3	31.1
8. Net borrowing/lending	EDP.B9	-18.24	-0.7	-2.3	-2.3	-1.6	-1.3
9. Interest expenditure	EDP.D41 incl. FISIM	54.46	2.2	2.3	2.3	2.3	2.3
10. Primary balance ¹⁷		36.22	1.4	0.0	0.0	0.8	1.0
11. One-off and other temporary measures ¹⁸		:	:	:	:	:	:
Components of revenues							
12. Total taxes (12 = 12a+12b+12c)		417.22	16.6	17.5	17.7	17.7	17.8

¹⁶ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.¹⁷ The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).¹⁸ A plus sign means deficit-reducing one-off measures

12a. Taxes on production and imports	D2	286.41	11.4	11.7	11.8	11.8	11.9
12b. Current taxes on income and wealth	D5	73.81	2.9	3.5	3.5	3.6	3.6
12c. Capital taxes	D91	56.99	2.3	2.3	2.3	2.3	2.4
13. Social contributions	D61	160.72	6.4	6.7	7.1	7.1	7.1
14. Property income	D4	0.08	0.0	0.0	0.0	0.0	0.0
15. Other (15 = 16-(12+13+14)) ¹⁹		132.31	5.3	5.0	4.8	4.9	4.9
16 = 6. Total revenue	TR	710.33	28.2	29.1	29.6	29.8	29.9
p.m.: Tax burden (D2+D5+D61+D91-D995) ²⁰		577.93	23.0	24.1	24.8	24.8	24.9

Table 2a: (continued)

	ESA Code	Year 2024	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
		Level (bn NCU)	% of GDP				

Selected components of expenditures

17. Collective consumption	P32	240.87	9.6	10.5	10.4	9.8	9.8
18. Total social transfers	D62 + D63	282.72	11.2	11.3	11.3	11.3	11.4
18a. Social transfers in kind	P31 = D63	:	:	:	:	:	:
18b. Social transfers other than in kind	D62	282.72	11.2	11.3	11.3	11.3	11.4
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	54.46	2.2	2.3	2.3	2.3	2.3
20. Subsidies	D3	1.79	0.1	0.1	0.1	0.1	0.1
21. Gross fixed capital formation	P51	140.04	5.6	7.3	7.6	7.5	7.4
22. Other (22 = 23- (17+18+19+20+21)) ²¹		8.69	0.3	:	0.2	0.3	0.2
23. Total expenditures	TE ²²	728.57	28.9	31.4	31.9	31.3	31.1
p.m compensation of employees	D1	139.42	5.5	6.1	6.3	6.0	5.8

¹⁹ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).²⁰ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.²¹ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.²² Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 2b: General government budgetary prospects

	ESA Code	Year	Year	Year	Year	Year
		2024	2025	2026	2027	2028
Level (bn NCU)						
Net lending (B9) by sub-sectors						
1. General government	S13	-18.24	-61.06	-63.71	-45.83	-39.33
2. Central government	S1311	92.07	59.25	73.48	91.70	104.11
3. State government	S1312	:	:	:	:	:
4. Local government	S1313	-28.51	-33.63	-45.98	-51.42	-52.68
5. Social security funds	S1314	-81.81	-86.68	-91.21	-86.11	-90.76
General government (S13)						
6. Total revenue	TR	710.33	769.01	823.06	870.57	920.64
7. Total expenditure ²³	TE	728.57	830.06	886.76	916.39	959.97
8. Net borrowing/lending	EDP.B9	-18.24	-61.06	-63.71	-45.83	-39.33
9. Interest expenditure	EDP.D41 incl. FISIM	54.46	61.69	64.21	68.24	71.34
10. Primary balance ²⁴		36.22	0.63	0.50	22.41	32.01
11. One-off and other temporary measures ²⁵		:	:	:	:	:
Components of revenues						
12. Total taxes (12 = 12a+12b+12c)		417.22	461.13	491.58	519.07	549.67
12a. Taxes on production and imports	D2	286.41	307.91	328.13	346.49	367.18
12b. Current taxes on income and wealth	D5	73.81	92.82	98.38	103.94	109.90
12c. Capital taxes	D91	56.99	60.39	65.08	68.63	72.59
13. Social contributions	D61	160.72	176.80	196.97	207.13	218.25
14. Property income	D4	0.08	0.06	0.30	0.30	0.32
15. Other (15 = 16-(12+13+14)) ²⁶		132.31	131.02	134.21	144.07	152.40
16 = 6. Total revenue	TR	710.33	769.01	823.06	870.57	920.64
p.m.: Tax burden (D2+D5+D61+D91-D995) ²⁷		577.93	637.93	688.55	726.20	767.92

²³ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.²⁴ The primary balance is calculated as (EDP B.9, item 8) plus (EDP D.41, item 9).²⁵ A plus sign means deficit-reducing one-off measures²⁶ P.11+P.12+P.131+D.39+D.7+D.9 (other than D.91).²⁷ Including those collected by the EU and including an adjustment for uncollected taxes and social contributions (D995), if appropriate.

Table 2b:(continued)

	ESA Code	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
		Level (bn NCU)				
Selected components of expenditures						
17. Collective consumption	P32	240.87	278.18	287.98	287.74	301.29
18. Total social transfers	D62 + D63	282.72	299.16	315.27	331.11	350.26
18a. Social transfers in kind	P31 = D63	:	:	:	:	:
18b. Social transfers other than in kind	D62	282.72	299.16	315.27	331.11	350.26
19 = 9. Interest expenditure (incl. FISIM)	EDP.D41 + FISIM	54.46	61.69	64.21	68.24	71.34
20. Subsidies	D3	1.79	1.95	2.45	2.45	2.45
21. Gross fixed capital formation	P51	140.04	192.16	211.94	218.84	228.98
22. Other (22 = 23- (17+18+19+20+21)) ²⁸		8.69	:	4.91	8.02	5.64
23. Total expenditures	TE ²⁹	728.57	830.06	886.76	916.39	959.97
p.m compensation of employees	D1	139.42	160.89	175.04	176.91	179.57

Table 3: General government expenditure by function

% of GDP	COFOG Code	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
1. General public services	1	5.2	5.1	5.2	4.9	4.7
2. Defence	2	0.9	1.6	1.5	1.5	1.5
3. Public order and safety	3	1.9	2.0	2.1	2.1	2.0
4. Economic affairs	4	3.6	4.2	4.5	4.3	4.1
5. Environmental protection	5	0.3	0.3	0.3	0.3	0.3
6. Housing and community amenities	6	1.9	2.1	2.2	1.8	1.9
7. Health	7	2.8	2.9	2.9	2.9	2.9
8. Recreation, culture and religion	8	0.5	0.5	0.4	0.4	0.4
9. Education	9	3.0	3.2	3.2	3.2	3.2
10. Social protection	10	9.0	9.3	9.2	9.5	9.7
11. Total expenditure (item 7 = 23 in Table 2)	TE	28.9	31.4	31.9	31.3	31.1

²⁸ D.29+D4 (other than D.41)+ D.5+D.7+D.9+P.52+P.53+K.2+D.8.²⁹ Adjusted for the next flow of swap-related flows, so the TR-TE = EDP.B9.

Table 4: General government debt developments

% of GDP	ESA Code	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
1. Gross debt ³⁰		54.2	54.1	53.6	52.2	51.0
2. Change in gross debt ratio		-3.4	-0.1	-0.5	-1.4	-1.2
Contributions to change in gross debt						
3. Primary balance ³¹		-1.4	0.0	0.0	-0.8	-1.0
4. Interest expenditure ³²	EDP D.41	2.2	2.3	2.3	2.3	2.3
5. Real growth effect		-2.2	-2.0	-2.0	-2.0	-2.0
6. Inflation effect		-0.6	-0.5	-0.5	-0.5	-0.5
7. Stock-flow adjustment		-0.6	0.1	0.0	-0.4	0.2
<i>of which:</i>						
- Differences between cash and accruals ³³		0.0	0.0	0.0	0.0	0.0
- Net accumulation of financial assets ³⁴		0.0	0.0	0.0	0.0	0.0
<i>of which:</i>						
Privatisation proceeds		0.0	0.0	0.0	0.0	0.0
Valuation effects and other ³⁵		0.0	0.0	0.0	0.0	0.0
p.m. implicit interest rate on debt ³⁶		4.0	4.5	4.5	4.6	4.7
Other relevant variables						
8. Liquid financial assets [8] ³⁷		2.3	2.3	1.9	1.3	1.1
9. Net financial debt (9 = 1 - 8)		51.9	51.8	51.8	50.9	49.8

³⁰ As defined in Regulation 3605/93 (not an ESA concept).³¹ Cf. item 10 in Table 2.³² Cf. item 9 in Table 2.³³ The differences concerning interest expenditure, other expenditure and revenue could be distinguished when relevant.³⁴ Liquid assets, assets on third countries, government-controlled enterprises and the difference between quoted and non-quoted assets could be distinguished when relevant.³⁵ Changes due to exchange rate movement, and operation in secondary market could be distinguished when relevant.³⁶ Proxied by interest expenditure divided by the debt level of the previous year.³⁷ AF1, AF2, AF3 (consolidated at market value), AF5 (if quoted at stock exchange, including mutual fund shares).

Table 5: Cyclical developments

% of GDP	ESA Code	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
1. Real GDP growth (%)	B1g	4.0	3.9	4.0	3.9	4.1
2. Net lending of general government	EDP.B.9	-0.7	-2.3	-2.3	-1.6	-1.3
3. Interest expenditure	EDP.D.41	2.2	2.3	2.3	2.3	2.3
4. One-off and other temporary measures ³⁸		:	:	:	:	:
5. Potential GDP growth (%) ³⁹		4.1	4.1	4.0	4.0	4.0
Contributions:						
- labour		:	:	:	:	:
- capital		:	:	:	:	:
- total factor productivity		:	:	:	:	:
6. Output gap		0.4	0.2	0.1	-0.1	-0.1
7. Cyclical budgetary component		-1.7	0.3	0.2	-0.6	1.3
8. Cyclically-adjusted balance (2-7)		1.0	-2.6	-2.5	-1.0	-2.5
9. Cyclically-adjusted primary balance (8+3)		3.1	-0.3	-0.1	1.4	-0.2
10. Structural balance (8-4)		:	:	:	:	:

Table 6: Divergence from previous programme

	Year 2024	Year 2025	Year 2026	Year 2027	Year 2028
1. GDP growth (%, y-o-y)					
Previous programme	3.9	3.9	4.0	3.9	:
Latest update	4.0	3.9	4.0	3.9	4.1
Difference (percentage points)	0.2	0.0	0.0	0.0	:
2. General government net lending (% of GDP)					
Previous programme	-1.5	-2.6	-1.9	-1.6	:
Latest update	-0.7	-2.3	-2.3	-1.6	-1.3
Difference	0.8	0.3	-0.4	0.0	:
3. General government gross debt (% of GDP)					
Previous programme	55.2	54.8	54.0	53.2	:
Latest update	54.2	54.1	53.6	52.2	51.0
Difference	-1.0	-0.7	-0.4	-0.9	:

³⁸ A plus sign means deficit-reducing one-off measures³⁹ Until an agreement on the Production Function Method is reached, countries can use their own figures (SP).

Table 7: Long-term sustainability of public finances (pre reform)

% of GDP	2007	2010	2020	2030	2040	2050	2060
Total expenditure	6.3	6.4	8.1	7.3	5.9	5.1	5.2
<i>of which:</i>	:	:	:	:	:	:	:
- Age-related expenditures	6.3	6.4	8.1	7.3	5.9	5.1	5.2
- Pension expenditure	:	:	:	:	:	:	:
- Social security pension	:	:	:	:	:	:	:
- Old-age and early pensions	:	:	:	:	:	:	:
- Other pensions (disability, survivors)	:	:	:	:	:	:	:
- Occupational pensions (if in general government)	:	:	:	:	:	:	:
- Health care	:	:	:	:	:	:	:
- Long-term care (<i>this was earlier included in the health care</i>)	:	:	:	:	:	:	:
Education expenditure	:	:	:	:	:	:	:
Other age-related expenditures	:	:	:	:	:	:	:
Interest expenditure	:	:	:	:	:	:	:
Total revenues	3.9	3.6	5.0	5.4	6.6	6.9	7.4
<i>of which:</i> property income	:	:	:	:	:	:	:
<i>of which:</i> from pensions contributions (or social contributions, if appropriate)	3.9	3.6	5.0	5.4	6.6	6.9	7.4
PAYG Pension reserve fund assets	:	:	:	:			
<i>of which:</i> consolidated public pension fund assets (assets other than government liabilities)	:	:	:	:	:	:	:
Assumptions							
Labour productivity growth	8.3	3.9	1.4	3.7	2.4	1.6	3.4
Real GDP growth	6.0	3.7	-3.3	3.9	3.0	3.0	3.0
Inflation rate	2.9	3.6	1.6	3.0	3.0	3.0	3.0
Participation rate males (aged 15-64)	:	72.3	77.1	82.3	82.3	82.3	82.3
Participation rates females (aged 15- 64)	:	52.9	61.2	69.3	69.3	69.3	69.3
Total participation rates (15-64)	65.4	62.3	69.1	77.9	79.4	79.4	79.4
Unemployment rate	13.5	14.2	12.2	8.6	8.6	8.6	8.6
Population aged 65+ over total population	9.5	10.7	14.8	26.5	28.3	27.1	28.6

Table 8: Basic assumptions on the external economic environment

	Dimension	2024	2025	2026	2027	2028	Albania
Short-term interest rate	Annual average	3.6	2.2	1.9	2	2	
Long-term interest rate	Annual average	2.3	2.6	2.7	2.9	2.9	
USD/EUR exchange	Annual average	1.1	1.1	1.2	1.2	1.16	
Nominal effective exchange rate	Annual average	:	:	:	:	:	
Exchange rate vis-à-vis the EUR	Annual average	100.70	98.30	98.30	98.30	98.30	
Global GDP growth, excluding EU	Annual average	3.7	3.4	3.4	3.5	3.5	
EU GDP growth	Annual average	1.1	1.4	1.4	1.5	1.5	
Growth of relevant foreign markets	Annual average	:	:	:	:	:	
World import volumes, excluding EU	Annual average	4.3	3	2	3	3	
Oil prices (Brent, USD/barrel)	Annual average	80.5	68.9	62.4	63.3	63.3	